International Public Sector Accounting Standards Board®

Handbook of International Public Sector Accounting Standards Board Pronouncements

2026 Edition

IPSAS®

IPSASB SRS™

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HANDBOOK OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD PRONOUNCEMENTS

2026 EDITION

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

The International Public Sector Accounting Standards Board® (IPSASB®) develops IPSAS® Accounting Standards and IPSASB SRS™ Standards for financial and sustainability reporting by public sector entities.

The IPSASB recognizes the significant benefits of achieving consistent and comparable financial and sustainability information across jurisdictions, and it believes that the IPSAS Accounting Standards and the IPSASB SRS Standards play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its standards by commenting on the proposals set out in its Consultation Papers and Exposure Drafts.

IPSAS Accounting Standards

IPSAS Accounting Standards draw on IFRS® Accounting Standards, issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable and appropriate for use in the public sector. IPSAS Accounting Standards also include public sector specific financial reporting guidance for issues that are not dealt with in IFRS Accounting Standards.

The adoption of IPSAS Accounting Standards by governments improves both the quality and comparability of financial information reported by public sector entities. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSAS Accounting Standards and the harmonization of national requirements with them.

Financial statements should be described as complying with IPSAS Accounting Standards only if they comply with all the requirements of each applicable IPSAS Accounting Standard.

IPSASB SRS Standards

IPSASB SRS Standards draw on IFRS Sustainability Disclosure Standards, issued by the International Sustainability Standards Board (ISSB), where the requirements of those Standards are applicable and appropriate for use in the public sector. IPSASB SRS Standards also deal with public sector specific sustainability reporting guidance for issues that are not dealt with in IFRS Sustainability Disclosure Standards.

The adoption of IPSASB SRS Standards by governments will improve both the quality and comparability of sustainability information reported by public sector entities. The IPSASB recognizes the right of governments and national standard-setters to establish sustainability reporting standards in their jurisdictions. The IPSASB encourages the adoption of IPSASB SRS Standards and the harmonization of national requirements with them.

Applicability of IPSAS Accounting Standards and IPSASB SRS Standards

An entity applying IPSAS Accounting Standards may do so regardless of whether it applies IPSASB SRS Standards. An entity may apply IPSASB SRS Standards irrespective of whether the entity's related general purpose financial statements are prepared in accordance with IPSAS Accounting Standards. The IPSASB, however, encourages the adoption of IPSAS Accounting Standards and IPSASB SRS Standards together to ensure high-quality reporting information for users, enabling strong public financial management and sustainable development.

THE INTERNATIONAL FEDERATION OF ACCOUNTANTS' ROLE

The International Federation of Accountants® (IFAC®), with its member organizations, serves the public interest by enhancing the relevance, reputation, and value of the global accountancy profession. It speaks out and engages as the voice for the global profession, leads and develops a future-ready profession, and contributes to and promotes the development, adoption, and implementation of high-quality international standards. Founded in 1977, IFAC is comprised of 188 members and associates in more than 143 countries and jurisdictions, representing more than 3 million accountants in public practice, education, government service, industry, and commerce.

As part of its public interest mandate, IFAC contributes to the development, adoption, and implementation of high-quality international public sector accounting standards, primarily through its support of the International Public Sector Accounting Standards Board® (IPSASB®). IFAC provides human resources, facilities management, communications support, and funding to this independent standard-setting board, and facilitates the nominations and selection process for board members.

The IPSASB sets its own agendas and approves its publications in accordance with its due process and without IFAC's involvement. IFAC has no ability to influence the agendas or publications. IFAC publishes the handbooks, standards, and other publications and owns the copyrights.

The IPSASB's independence is safeguarded in a number of ways:

- Full transparency, both in terms of due process for standard-setting, as well as public access to agenda materials, meetings, and a published basis for conclusions with each final standard;
- The involvement of observers in the standard-setting process; and
- The requirement that IPSASB members, as well as nominating/employing organizations, commit to the board's independence, integrity, and public interest mission.

The IPSASB Consultative Advisory Group (CAG) is an integral and important part of the IPSASB's formal process of consultation. Representatives of CAG member organizations provide advice on numerous areas, including:

- The IPSASB's strategy, work program and agenda, including project priorities;
- IPSASB's projects, including views on key technical issues or matters that may impede the adoption or effective implementation of IPSAS Standards; and
- Other matters of relevance to the standard-setting activities of the IPSASB.

The governance and standard-setting activities of the IPSASB are overseen by the Public Interest Committee (PIC), to ensure that they follow due process and reflect the public interest.

The PIC is comprised of individuals with expertise in public sector or financial reporting, and professional engagement in organizations that have an interest in promoting high-quality and internationally comparable financial information.

Visit the IFAC website at www.ifac.org for further information.

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SCOPE OF THIS HANDBOOK
2026 EDITION

This Handbook brings together for continuing reference background information about the International Federation of Accountants (IFAC) and the official text of the International Public Sector Accounting Standards (IPSAS) and other publications issued by the IPSASB as of January 31, 2026.

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CHANGES OF SUBSTANCE FROM THE 2025 EDITION OF THE HANDBOOK

Pronouncements Issued by the International Public Sector Accounting Standards Board

This Handbook contains the complete set of the International Public Sector Accounting Standards Board's (IPSASB's) pronouncements on public sector financial and sustainability reporting.

References

This Handbook contains references to International Accounting Standards® (IAS®) and International Financial Reporting Standards® (IFRS®) issued by the International Accounting Standards Board (IASB®), and IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB®). The approved text of the IAS® Standards and the IFRS® Accounting Standards is that published by the IASB and the IFRS Sustainability Disclosure Standards is that published by the ISSB in the English language, and copies may be obtained directly from IFRS Foundation, Customer Service, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD, United Kingdom.

E-mail: publications@ifrs.org

Internet: www.ifrs.org

New Standards

The IPSASB approved the following IPSAS Accounting Standards, which are included in this Handbook:

- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025);
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025);
- IPSAS 33, *First-time Adoption of Accrual Basis IPSAS Standards* (issued November 2025); and
- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026);

These are effective from the date noted in the Standards.

These Standards resulted in a number of consequential amendments to other IPSAS Standards. These amendments are effective from the dates noted in the Standards.

The IPSASB also approved the following IPSAS SRS Standard, which is also included in this Handbook:

- IPSASB SRS 1, *Climate-related Disclosures* (issued January 2026).

Amendments

The Standard *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* amended IPSAS Standards to add the current operational value measurement basis, to add a definition of an accounting estimate, and enhance the consistency of current measurement value measurement disclosures. *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and the following IPSAS Standards have been amended:

- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- IPSAS 12, *Inventories*;
- IPSAS 16, *Investment Property*;
- IPSAS 21, *Impairment of Non-Cash-Generating Assets*;
- IPSAS 27, *Agriculture*;

- IPSAS 30, *Financial Instruments: Disclosures*;
- IPSAS 31, *Intangible Assets*;
- IPSAS 34, *Separate Financial Statements*;
- IPSAS 38, *Disclosure of Interests in Other Entities*;
- IPSAS 40, *Public Sector Combinations*;
- IPSAS 41, *Financial Instruments*;
- IPSAS 45, *Property, Plant, and Equipment*; and
- IPSAS 46, *Measurement*.

The Standard *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) amended the definition of material to align the Conceptual Framework and IPSAS Standards. *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and the following IPSAS Standards have been amended:

- IPSAS 1, *Presentation of Financial Statements*;
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- IPSAS 14, *Events after the Reporting Date*;
- IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
- IPSAS 20, *Related Party Disclosures*;
- IPSAS 42, *Social Benefits*; and
- IPSAS 45, *Property, Plant, and Equipment*.

PREFACE TO IPSAS ACCOUNTING STANDARDS AND IPSASB SRS STANDARDS

History of the Preface

The *Preface* was issued in 2000.

In November 2004, the *Preface* was revised.

In December 2006, the *Preface* was revised.

In March 2012, the *Preface* was revised.

In April 2016, the *Preface* was revised.

In May 2026, the *Preface* was revised.

PREFACE TO IPSAS ACCOUNTING STANDARDS AND IPSASB SRS STANDARDS

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PREFACE TO IPSAS ACCOUNTING STANDARDS AND IPSASB SRS STANDARDS

Introduction

1. This *Preface* sets out the objectives of the *International Public Sector Accounting Standards Board* (IPSASB®) and explains the scope and authority of the IPSAS® Accounting Standards and IPSASB SRS™ Standards. The *Preface* should be used as a reference for interpreting Consultation Papers, Exposure Drafts, and Standards developed and issued by the IPSASB.

2. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is "to serve the public interest by contributing to and supporting high-quality international standards, helping to build and encouraging strong professional accountancy organizations, accounting firms, and high-quality practices by professional accountants; and speaking out on public interest issues where the accountancy profession's expertise is most relevant." In pursuing this mission, the IFAC Board has established the IPSASB to function as an independent standard-setting body under the auspices of IFAC.

3. The IPSASB serves the public interest by developing and issuing, under its own authority, accounting and sustainability reporting standards and other publications for use by public sector entities as described in paragraph 10 below.

4. Information on the IPSASB's membership, terms of office, meeting procedures, due process, and oversight is set out in the IPSASB's Terms of Reference.

Objective of the IPSASB

5. The objective of the IPSASB is to serve the public interest by developing high-quality standards and other guidance for use by public sector entities around the world in the preparation of general purpose financial reports.

6. The standards are intended to enhance the quality and transparency of public sector financial and sustainability reporting by providing better information for public sector financial management and decision making. In pursuit of this objective, the IPSASB supports the alignment of international and national public sector accounting and sustainability reporting standards and the alignment of accounting and statistical bases of financial reporting where appropriate; and also promotes the acceptance of its standards and other publications.

7. In fulfilling its objective, the IPSASB develops and issues the following publications:

   - IPSAS Accounting Standards as the standards to be applied in the preparation of general purpose financial reports of public sector entities.
   - IPSASB SRS Standards as the standards dealing with public sector sustainability reporting.
   - RPG Guidelines to provide guidance on good practice that public sector entities are encouraged to follow.
   - Studies to provide advice on financial reporting issues in the public sector. They are based on study of the good practices and most effective methods for dealing with the issues being addressed.
   - Other papers and research reports to provide information that contributes to the body of knowledge about public sector financial and sustainability reporting issues. They are aimed at providing new information or fresh insights and generally result from research activities such as: literature searches, questionnaire surveys, interviews, experiments, case studies and analysis.

Scope and Authority of IPSAS Accounting Standards and IPSASB SRS Standards

Scope

8. The IPSASB develops IPSAS Accounting Standards which apply to the accrual basis of accounting and IPSASB SRS Standards which apply to sustainability-related information in general purpose financial reports.

9. The Standards set out requirements dealing with transactions and other events in general purpose financial reports. General purpose financial reports are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

10. The Standards are designed to apply to public sector entities[1] that meet all the following criteria:

    (a) Are responsible for the delivery of services[2] to benefit the public and/or to redistribute income and wealth;

    (b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and

    (c) Do not have a primary objective to make profits.

11. Any limitation of the applicability of specific Standard is made clear in those standards. The Standards are not meant to apply to immaterial items.

12. The IPSASB has adopted the policy that all paragraphs in the Standards shall have equal authority, and that the authority of a particular provision shall be determined by the language used. Consequently, Standards approved by the IPSASB after January 1, 2006 include paragraphs in bold and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual Standard should be read in the context of the objective and Basis for Conclusions (if any) stated in that Standard and this *Preface*.

Development

13. The IPSASB develops IPSAS Accounting Standards and IPSASB SRS Standards that:

    - Are aligned with IFRS Accounting Standards issued by the IASB and IFRS Sustainability Disclosure Standards issues by the International Sustainability Standards Board (ISSB®) by adapting them to a public sector context where appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRS Accounting Standards and the IFRS Sustainability Disclosure Standards unless there is a significant public sector issue which warrants a departure; and

    - Deals with public sector financial and sustainability reporting issues that are either not addressed by adapting IFRS Accounting Standards and IFRS Sustainability Disclosure Standards or for which IFRS Accounting Standards and IFRS Sustainability Disclosure Standards have not been developed by the IASB and ISSB, respectively.

Moving from the Cash Basis to the Accrual Basis

14. The IPSASB has issued a comprehensive Cash Basis IPSAS Standard that includes mandatory and encouraged disclosures and is a temporary transitional Standard towards the adoption of accrual-based IPSAS Accounting Standards.

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[1] Paragraph 1.8 of The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities identifies a wide range of public sector entities for which IPSAS are designed.

[2] Services encompasses goods, services and policy advice, including to other public sector entities.

15. The Cash Basis IPSAS Standard encourages an entity to voluntarily disclose accrual-based information, although its core financial statements will nonetheless be prepared under the cash basis of accounting. An entity in the process of moving from cash accounting to accrual accounting may wish to include particular accrual-based disclosures during this process. The status (for example, audited or unaudited) and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting within a jurisdiction.

16. The IPSASB also attempts to facilitate compliance with accrual-based IPSAS Accounting Standards through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual-based IPSAS Accounting Standard or provide relief from certain requirements when initially applying an IPSAS Accounting Standard. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSAS Accounting Standards. Having decided to adopt accrual accounting in accordance with IPSAS Accounting Standards, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity reports in full accordance with all accrual-based IPSAS Accounting Standards.

17. Paragraph 28 of IPSAS 1, *Presentation of Financial Statements* includes the following requirement:

    An entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS.

18. IPSAS 1 also requires disclosure of the extent to which the entity has applied any transitional provisions.

Authority

19. Within each jurisdiction, regulations may govern the issue of general purpose financial reports by public sector entities. These regulations may be in the form of statutory reporting requirements, financial reporting directives and instructions, and/or accounting standards promulgated by governments, regulatory bodies and/or professional accounting bodies in the jurisdiction concerned.

20. The IPSASB believes that the adoption of the Standards, together with disclosure of compliance with them, will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to strengthen public finance management leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

21. The IPSASB strongly encourages the adoption of the Standards and the harmonization of national requirements with them. The IPSASB acknowledges the right of governments and national standard-setters to establish standards and guidelines for financial and sustainability reporting in their jurisdictions. Some sovereign governments and national standard-setters have already developed accounting and sustainability standards that apply to governments and public sector entities within their jurisdiction. The Standards may assist such standard-setters in the development of new standards or in the revision of existing standards in order to contribute to greater comparability. The Standards are likely to be of considerable use to jurisdictions that have not yet developed accounting standards for governments and public sector entities.

22. Standing alone, neither the IPSASB nor the accounting profession has the power to require compliance with the Standards. The success of the IPSASB's efforts is dependent upon the recognition and support for its work from many different interested groups acting within the limits of their own jurisdiction.

Language

23. The official text of the Standards and other publications is that approved by the IPSASB in the English language. Member bodies of IFAC are authorized to prepare, after obtaining IFAC approval, translations of such pronouncements at their own cost, to be issued in the language of the own jurisdictions as appropriate.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

History of the *Conceptual Framework*

Chapters 1–4 of the *Conceptual Framework* were issued in January 2013.

The preface and Chapters 5–8 of the *Conceptual Framework* were issued in October 2014.

Chapters 3, 5, and 7 were updated in 2023.

The *Conceptual Framework* has been amended by the following IPSAS Accounting Standards:

- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)

Table of Amended Paragraphs in the *Conceptual Framework*

Paragraph Affected	How Affected	Affected By
2.4	Amended	*Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) October 2025
3.32	Amended	*Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) October 2025
7.17	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
7.57	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
7.59	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
7.61	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
7.62	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

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

Introduction

1. The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)* establishes the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSAS) and Recommended Practice Guidelines (RPG) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities[1].

2. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. GPFRs provide information to users for accountability and decision-making purposes. Therefore, users of the GPFRs of public sector entities need information to support assessments of such matters as:

   - Whether the entity provided its services to constituents in an efficient and effective manner;
   - The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
   - To what extent the burden on future-year taxpayers of paying for current services has changed; and
   - Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

3. Governments generally have broad powers, including the ability to establish and enforce legal requirements, and to change those requirements. Globally the public sector varies considerably in both its constitutional arrangements and its methods of operation. However, governance in the public sector generally involves the holding to account of the executive by a legislative body (or equivalent).

4. The following sections highlight characteristics of the public sector that the IPSASB has considered in the development of the Conceptual Framework.

The Volume and Financial Significance of Non-Exchange Transactions

5. In a non-exchange transaction, an entity receives value from another party without directly giving approximately equal value in exchange. Such transactions are common in the public sector. The level and quality of services received by an individual, or group of individuals, is not normally directly related to the level of taxes assessed. An individual or group may have to pay a charge or fee and/or may have had to make specified contributions to access certain services. However, such transactions are, generally, of a non-exchange nature, because the amount that an individual or group of individuals obtains in benefits will not be approximately equal to the amount of any fees paid or contributions made by the individual or group. The nature of non-exchange transactions may have an impact on how they are recognized, measured, and presented to best support assessments of the entity by service recipients and resource providers.

6. Taxation is a legally mandated, compulsory non-exchange transaction between individuals or entities and the government. Tax-raising powers can vary considerably, dependent upon the relationship between the powers of the national government and those of sub-national governments and other public sector entities. International public sector entities are largely funded by transfers from national, regional and state governments. Such funding may be governed by treaties and conventions or may be on a voluntary basis.

[1] The public sector includes national and sub-national (regional, state/provincial, and local), governments and related governmental entities. It also includes international public sector organizations.

7. Governments and other public sector entities are accountable to resource providers, particularly to those that provide resources through taxes and other compulsory transactions. Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, discusses the accountability objective of financial reporting.

The Importance of the Approved Budget

8. Most governments and other public sector entities prepare budgets. In many jurisdictions there is a constitutional requirement to prepare and make publicly available a budget approved by the legislature (or equivalent). Legislation often defines the contents of that documentation. The legislature (or equivalent) exercises oversight, and constituents and their elected representatives hold the entity's management financially accountable through the budget and other mechanisms. The approved budget is often the basis for setting taxation levels, and is part of the process for obtaining legislative approval for spending.

9. Because of the approved budget's significance, information that enables users to compare financial results with the budget facilitates an assessment of the extent to which a public sector entity has met its financial objectives. Such information promotes accountability and informs decision making in subsequent budgets. Reporting against budget is commonly the mechanism for demonstrating compliance with legal requirements relating to the public finances. The needs of users for budget information is discussed in Chapter 2.

The Nature of Public Sector Programs and the Longevity of the Public Sector

10. Many public sector programs are long term and the ability to meet commitments depends upon future taxation and contributions. Many commitments arising from public sector programs and powers to levy future taxation do not meet the definitions of a liability and an asset in *Chapter 5, Elements in Financial Statements*. Therefore, such commitments and powers are not recognized in the financial statements.

11. Consequently, the statement of financial position and statement of financial performance cannot provide all the information that users need on long-term programs, particularly those delivering social benefits. The financial consequences of many decisions will have an impact many years or even decades into the future, so GPFRs containing prospective financial information on the long-term sustainability of an entity's finances and key programs are necessary for accountability and decision-making purposes as discussed in Chapter 2.

12. Although political control may change regularly, nation states generally have very long existences. While they may encounter severe financial difficulties and may default on sovereign debt obligations, nation states continue to exist. If sub-national entities get into financial difficulties, national governments might act as lenders of last resort or provide large scale guarantees. The main service delivery commitments of sub-national entities may continue to be funded by a higher level of government. In other cases public sector entities that are unable to meet their liabilities as they fall due may continue to exist by restructuring their operations.

13. The going concern principle underpins the preparation of the financial statements. Interpretation of the principle needs to reflect the issues discussed in paragraphs 11 and 12.

The Nature and Purpose of Assets and Liabilities in the Public Sector

14. In the public sector, the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows[2]. Because of the types of services provided, a significant proportion of assets used by public sector entities is specialized—for example, roads and military assets. There may be a limited market for such assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the

[2] Many public sector assets will generate cash flows, but this is often not the main reason for holding them.

measurement of such assets. Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, discusses measurement bases for assets.

15. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.

16. Governments often have powers over natural and other resources such as mineral reserves, water, fishing grounds, forests and the electromagnetic spectrum. These powers allow governments to grant licenses for the use of such resources or to obtain royalties and taxes from their use. The definition of an asset and recognition criteria are discussed in Chapters 5 and 6, *Recognition in Financial Statements*.

17. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation. The definition of a liability and recognition criteria are discussed in Chapters 5 and 6.

The Regulatory Role of Public Sector Entities

18. Many governments and other public sector entities have powers to regulate entities operating in certain sectors of the economy, either directly or through specifically created agencies. The underlying public policy rationale for regulation is to safeguard the public interest in accordance with specified public policy objectives. Regulatory intervention can also occur where there are market imperfections or market failure for particular services, or to mitigate against factors such as pollution, the impact of which is not transmitted through pricing. Such regulatory activities are carried out in accordance with legal processes.

19. Governments may also regulate themselves and other public sector entities. Judgment may be necessary to determine whether such regulations create rights of, and obligations on, public sector entities that require recognition as assets and liabilities, or whether the public sector entity's ability to amend such regulations has an impact on how such rights and obligations are accounted for. Chapter 5 considers rights and obligations.

Relationship to Statistical Reporting

20. Many governments produce two types of ex-post financial information: (a) government finance statistics (GFS) on the general government sector (GGS) for the purpose of macroeconomic analysis and decision making, and (b) general purpose financial statements (financial statements) for accountability and decision making at an entity level, including financial statements for the whole of government reporting entity.

21. The overarching standards for macro-economic statistics are set out in the *System of National Accounts* (SNA). The SNA is a framework for a systematic and detailed description of the national economy and its components, including the GGS. These standards are then implemented at national or regional level, for example in the European Union through the European System of Accounts. GFS reporting guidelines include the International Monetary Fund's Government Finance Statistics Manual.

22. IPSAS financial statements and GFS reports have much in common. Both reporting frameworks are concerned with (a) financial, accrual-based information, (b) a government's assets, liabilities, revenue, and expenses and (c) comprehensive information on cash flows. There is considerable overlap between the two reporting frameworks that underpin this information.

23. However, IPSAS and GFS reporting guidelines have different objectives. The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of GPFRs for accountability purposes and decision-making purposes. GFS reports are used to (a) analyze fiscal policy options, make policy and evaluate the impact of fiscal policies, (b) determine the impact on the economy, and (c) compare fiscal outcomes nationally and internationally. The focus is on evaluating the impact of the GGS and broader public sector on the economy, within the complete macroeconomic statistics framework.

24. The different objectives and focus on different reporting entities lead to the different treatment of some transactions and events. The removal of differences between the two accounting frameworks that are not fundamental to their different objectives and reporting entities, and use of a single integrated financial information system to generate both IPSAS-compliant financial statements and GFS reports can provide benefits to users in terms of report quality, timeliness and understandability. These matters and their implications were considered in the development of Chapters 2, 4, *Reporting Entity*, and 7, which discuss the objectives of financial reporting, the reporting entity and measurement.

CHAPTER 1: ROLE AND AUTHORITY OF THE CONCEPTUAL FRAMEWORK

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Role of the Conceptual Framework

1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSAS) and Recommended Practice Guidelines (RPG) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

Authority of the Conceptual Framework

1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSAS, nor does it override the requirements of IPSAS Standards or RPG. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFRs are specified in IPSAS.

1.3 The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by IPSAS or RPG. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

General Purpose Financial Reports

1.4 GPFRs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.

1.6 GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. GPFRs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements.

1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the next chapter.

Applicability of the Conceptual Framework

1.8 The Conceptual Framework applies to financial reporting by public sector entities that apply IPSAS. Therefore, it applies to GPFRs of national, regional, state/provincial and local governments. It also applies to a wide range of other public sector entities including:

- Government ministries, departments, programs, boards, commissions, agencies;
- Public sector social security funds, trusts, and statutory authorities; and
- International governmental organizations.

Basis for Conclusions

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

Role and Authority of the Conceptual Framework

BC1.1 The Conceptual Framework identifies the concepts that the IPSASB will apply in developing IPSAS and RPG intended to assist preparers and others in dealing with financial reporting issues. IPSAS specify authoritative requirements. IPSAS and RPG are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.

BC1.2 The Conceptual Framework underpins the development of IPSAS. Therefore, it has relevance for all entities that apply IPSAS. GPFR prepared at the whole-of-government level in accordance with IPSAS may also consolidate all governmental entities whether or not those entities have complied with IPSAS in their GPFR.

Special Purpose Financial Reports

BC1.3 Standard setters often describe as “special purpose financial reports” those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSAS have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

General Purpose Financial Reports

BC1.4 The Conceptual Framework acknowledges that, to respond to users’ information needs, GPFRs may include information that enhances, complements, and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, identifies the objectives of financial reporting and the primary users of GPFRs. It also outlines the consequences of the primary users’ likely information needs for what may be encompassed within the scope of financial reporting.

CHAPTER 2: OBJECTIVES AND USERS OF GENERAL PURPOSE FINANCIAL REPORTING

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Objectives of Financial Reporting

2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes").

2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.

2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as "service recipients and resource providers", unless identified otherwise).[3]

2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

2.6 GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may

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

find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Accountability and Decision Making

2.7 The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non-exchange transaction[4] and in a non-competitive environment.

2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

2.9 Service recipients and resource providers will also require information as input for making decisions. For example:

- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
- Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a particular public sector entity or whether to purchase or consume the services provided. However, service recipients and resource providers can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

2.10 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

[4] Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value to another entity in exchange. Non-exchange transactions are transactions in which an entity receives value from another entity without directly giving approximately equal value in exchange.

Information Needs of Service Recipients and Resource Providers

2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
  - Meeting its service delivery and other operating and financial objectives;
  - Managing the resources it is responsible for;
  - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
  - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control;
  - The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

2.12 The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.13 Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

Information Provided by General Purpose Financial Reports

Financial Position, Financial Performance, and Cash Flows

2.14 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

2.15 Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will assist users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

2.16 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

2.17 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- Compliance with approved budgets and other authority governing its operations;
- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long-term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

Budget Information and Compliance with Legislation or Other Authority Governing the Raising and Use of Resources

2.18 Typically, a government or other public sector entity prepares, approves and makes publicly available an annual budget. The approved budget provides interested parties with financial information about the entity's operational plans for the forthcoming period, its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of resources from taxpayers and other resource providers, and establishes the authority for expenditure of resources.

2.19 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.

2.20 GPFRs provide information about the financial results (whether described as "surplus or deficit," "profit or loss," or by other terms), performance and cash flows of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.

2.21 The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity's adherence to relevant legislation or other authority governing the raising and use of resources, is important in determining how well a public sector entity has met its financial objectives. Such information is necessary for the discharge of a government's or other public sector entity's accountability to its constituents, enhances the assessment of the financial performance of the entity and will inform decision making.

Service Delivery Achievements

2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial results. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.

2.23 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the reporting period will provide relevant information about the achievement of service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.

2.24 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting such information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

2.25 Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.

2.26 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:

- Constituents who will be dependent on those services in the future; and
- Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.

2.27 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will support assessments of the sustainability of service delivery by a government or other public sector entity, enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Explanatory Information

2.28 Information about the major factors underlying the financial and service delivery performance of the entity during the reporting period and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements, and supplements those statements.

2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other chapters of the Conceptual Framework and in the development of individual IPSAS or RPG, as appropriate.

Other Sources of Information

2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, it is unlikely that GPFRs will provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial

forecasts issued by governments provide more detailed financial and non-financial information about the financial characteristics of the plans of governments and other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

Basis for Conclusions

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

Primary User Groups

BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFRs. Many respondents to the initial Consultation Paper[5] expressed the view that the Framework should identify the primary users of GPFRs, and the IPSASB should focus on the information needs of those primary users in developing IPSAS. The IPSASB was persuaded by these views.

Identifying the Primary User Groups

BC2.2 Conceptual Framework Exposure Draft 1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics*; and Reporting Entity (the Exposure Draft), identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFRs. It explained that, while the IPSASB will develop IPSAS and RPG on the contents of GPFRs to respond to the information needs of these primary users, GPFRs may still be used by others with an interest in financial reporting, and may provide information of use to those other users.

BC2.3 Many respondents to the Exposure Draft expressed support for the identification of service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs. However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFRs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFRs. Some respondents also expressed the view that only resource providers and their representatives should be identified as the primary users of GPFRs of public sector entities. They explained that it is unlikely that GPFRs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single user group. They also noted that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, given the objectives of financial reporting by public sector entities, the IPSASB remains of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:

- Governments and other public sector entities are accountable to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
- GPFRs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision-making purposes.

[5] Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity.*

As such, GPFRs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

BC2.5 The IPSASB accepts that some information in GPFRs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSAS and RPG, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.

BC2.6 The IPSASB's views on the relationship between the primary user groups identified by respondents, and service recipients and resource providers are further elaborated below.

Citizens

BC2.7 The IPSASB acknowledges the importance of citizens, the public and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs—focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFRs should attempt to respond to. The IPSASB is also of the view that, in developing IPSAS, it is appropriate that it has the capacity to consider the information needs of a range of service recipients and resource providers who may not be citizens (including donors and lenders) and do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

Resource Providers

BC2.8 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, it has been noted that in some jurisdictions resource providers are primarily donors or lenders that may have the authority to require the preparation of special purpose financial reports to provide the information they need.

BC2.9 As noted at paragraph BC2.4, the IPSASB has formed a view that both service recipients and resource providers and their representatives are primary users of GPFRs. The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFRs in their capacity as service recipients from the potential users of GPFRs, or identify their information needs as less important than those of resource providers. The IPSASB is also of the view that it is not appropriate that donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector entities be excluded as potential users of GPFRs, or that their information needs be identified as less important than those of service recipients.

The Legislature

BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the information provided by GPFRs, as well as information provided by special purpose financial reports, for input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

Other User Groups

BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFRs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond appropriately to the information needs of subgroups of service recipients and resource providers.

BC2.13 The information provided by GPFRs may be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or to resource providers (such as citizen advocacy groups, bond rating agencies, credit analysts and public interest groups) are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

The Objectives of Financial Reporting

BC2.14 Many respondents to the Exposure Draft agreed that the provision of information useful for both accountability and decision-making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of financial reporting by public sector entities; other respondents advocated that decision making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFRs of public sector entities will require information for both accountability and decision-making purposes.

BC2.15 Some respondents to the Exposure Draft advocated that the link between accountability and decision making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector entities be identified. The IPSASB has responded positively to these proposals. The Framework has been restructured and clarifications added.

BC2.16 The explanation of accountability and its relationship to decision making and GPFRs has also been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this

Framework is broad. It encompasses the provision of information about the entity's management of the resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision of services over the long term. The IPSASB is of the view that this broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that it is unlikely that GPFRs will provide all the information that service recipients and resource providers need for accountability and decision-making purposes.

The Scope of Financial Reporting—Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

BC2.17 Many respondents to the Exposure Draft expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics such as verifiability and comparability. Other respondents did not support the scope of financial reporting being broader than financial statements, expressing concern that:

- The proposed broad scope dealt with matters which were outside the Terms of Reference of the IPSASB that were in effect at that time; and
- Guidance on matters outside the financial statements, such as non-financial and prospective information, is appropriately a matter for individual governments, or governing bodies or other authority.
- Some respondents to the Exposure Draft also expressed concern that the scope was too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting be included in the Conceptual Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because:

- The primary objective of governments and other public sector entities is to deliver services to constituents rather than to generate profits;
- Citizens and other eligible residents are dependent on governments and other public sector entities to provide a wide range of services on an on-going basis over the long term. The activities of, and decisions made by, governments and other public sector entities in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and
- Most governments and other public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring implementation of the approved budget is the primary method by which the legislature exercises oversight, and citizens and their elected representatives hold the government's management financially accountable.

BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision-making purposes, the Conceptual Framework should enable GPFRs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by separate reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period; its compliance with approved budgets and legislation or other authority governing the

raising and use of resources; and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.

BC2.20 In making decisions about financial reporting requirements or guidance that extend the information presented in GPFRs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

Limiting the Scope of Financial Reporting

BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in the Exposure Draft was too open ended and/or not adequately explained or justified—in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.

BC2.22 The IPSASB has responded to these concerns by clarifying the linkages between the scope of financial reporting and users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFRs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements and supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

Resource Considerations, Authoritative Requirements and Audit Status

BC2.23 Many respondents, whether supportive or opposed to the proposals in the Exposure Draft, expressed concern that dealing with "broad scope" issues would absorb too much of the IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to the Exposure Draft also:

- Advocated that the Conceptual Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and
- Expressed concern about the audit implications of including non-financial information and prospective information in GPFRs.

BC2.24 While the IPSASB can develop IPSAS which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications also include RPG and other documents intended to assist the financial reporting community to respond to particular financial reporting issues. All IPSASB documents which include authoritative requirements or guidance on the presentation of information in GPFRs, whether as part of the financial statements or enhancements to those statements, will be subject to full due process. Therefore, in developing authoritative or other guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance.

BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's resources to broad scope issues. However, information presented in financial statements remains at the core of financial reporting and, therefore, will remain the primary focus of the IPSAS and RPG developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements.

BC2.26 The IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSAS and RPG that may be developed consistent with the concepts reflected in the Framework, to attempt to establish the level

of audit assurance that should be provided to particular aspects of GPFRs. The qualitative characteristics provide some assurance to users about the quality of information included in GPFRs. However, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the entity.

CHAPTER 3: QUALITATIVE CHARACTERISTICS

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Introduction

3.1 GPFRs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

3.3 Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.

3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements will be considered in the development of any IPSAS and RPG that deal with such matters.

Relevance

3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.

3.12 An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information and information about the achievement of service delivery objectives and outcomes included in GPFRs will need to be presented with the key assumptions that underlie that information and any explanations that are necessary to ensure that its depiction is complete and useful to users.

3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.

3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

3.14A Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and revenue are not overstated, and liabilities and expense are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or revenue or the overstatement of liabilities or expense. Such misstatements can lead to the overstatement or understatement of revenue or expense in future reporting periods.

3.14B The exercise of prudence does not imply a need for asymmetry; for example, a systematic need for more persuasive evidence to support the recognition of assets or revenue than the recognition of liabilities or expense. Particular standards may contain asymmetric requirements where this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.

3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, the volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—for example, this may occur in respect of programs intended to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.

3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- Prospective financial and non-financial information previously presented for that reporting period or reporting date;
- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

3.25 Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information *represents* the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.

3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

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

3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

3.33A GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform characteristic or a uniform set of characteristics at which a particular type of information becomes material.

3.34 Materiality is classified as a constraint on information included in GPFRs in the Conceptual Framework. In developing IPSAS and RPG, the IPSASB will consider the materiality of the consequences of application of a particular accounting policy, basis of preparation or disclosure of a particular item or type of information. Subject to the requirements of any IPSAS, entities preparing GPFRs will also consider the materiality of, for example, the application of a particular accounting policy and the separate disclosure of particular items of information.

Cost-Benefit

3.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.

3.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.

3.38 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better decision making by management. The disclosure of information in GPFRs consistent with the concepts identified in the Conceptual Framework and IPSAS and RPG derived from them will enhance and reinforce perceptions of the transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristic might be sacrificed to some degree to reduce cost.

3.40 In developing IPSAS, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSAS when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs.

Balance between the Qualitative Characteristics

3.41 The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is

a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

Basis for Conclusions

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

Qualitative Characteristics of Information Included in General Purpose Financial Reports

BC3.1 In developing IPSAS, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs. In making those judgments, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSAS only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.

BC3.2 Some respondents to the Exposure Draft issued in 2010 (the 2010 Exposure Draft) expressed concern about the application of the qualitative characteristics to all matters that may be presented in GPFRs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands this concern. The IPSASB acknowledges that IPSAS and RPG that deal with the presentation in GPFRs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with.

BC3.3 IPSAS and RPG issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS or RPG that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

BC3.4 Having in place accounting systems and processes that are appropriately designed and are operated effectively will enable management to gather and process evidence to support financial reporting. The quality of these systems and processes is a key factor in ensuring the quality of financial information that the entity includes in GPFRs.

Limited Scope Update of Conceptual Framework

BC3.4A In March 2020 the IPSASB initiated a Limited Scope Update of the Conceptual Framework. The Limited Scope Update proposed modifications to the guidance on materiality and the addition of guidance on the role of prudence in the context of faithful representation. The IPSASB approved an updated Chapter 3 in June 2023. The IPSASB started using updated Chapter 3 immediately once approved.

Other Qualitative Characteristics Considered

BC3.5 Some respondents to the 2010 Exposure Draft expressed the view that additional qualitative characteristics should be identified. Those qualitative characteristics included "sincerity," "true and fair view," "credibility," "transparency," and "regularity".

BC3.6 The IPSASB noted that "sincerity" as used in financial reporting has a similar meaning to "true and fair". The IPSASB took the view that sincerity, true and fair view, credibility, and transparency are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSAS that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB also took the view

that the notion of "regularity" as noted by some respondents is related to the notion of "compliance" as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

Relevance

BC3.7 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process the IPSASB seeks input on whether the requirements of a proposed IPSAS or any proposed RPG are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity's obligation to be accountable and to decisions that users may make.

Faithful Representation

BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through an explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic or other phenomena. For example, the presentation of the item "plant and equipment" in a financial statement may represent an aggregate of all of an entity's plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

BC3.9 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic or other phenomenon that it purports to represent.

Faithful Representation or Reliability

BC3.10 At the time of issue of the 2010 Exposure Draft, Appendix A of IPSAS 1, *Presentation of Financial Statements*, identified "reliability" as a qualitative characteristic. It described reliable information as information that is "free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent." Faithful representation, substance over form, neutrality, prudence and completeness were identified as components of reliability. The Conceptual Framework uses the term "faithful representation" rather than "reliability" to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

BC3.11 Many respondents to the 2010 Exposure Draft supported the use of faithful representation and its explanation in the 2010 Exposure Draft, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.

BC3.12 The use of the term "faithful representation", or "reliability" for that matter, to describe this qualitative characteristic in the Conceptual Framework will not determine the measurement basis to be adopted in GPFRs, whether historical cost, fair value, cost of fulfillment, or another measurement basis. The IPSASB did not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement basis or bases reflected in GPFRs.

BC3.13 The IPSASB appreciated the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB took the view that explanation in the Conceptual Framework that "Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error", and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in the use of the term reliability.

BC3.14 In addition, the IPSASB was advised that the term "reliability" is itself open to different interpretations and subjective judgments, with consequences for the quality of information included in GPFRs. The IPSASB took the view that use of the term "faithful representation" will overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

Substance over Form and Prudence

BC3.15 Some respondents to the 2010 Exposure Draft expressed concern that substance over form and prudence were not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

BC3.16 The Conceptual Framework explains that "Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form." Therefore, substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

BC3.17 The IPSASB took the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence was not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

BC3.17A The International Accounting Standards Board (IASB) revised its approach to prudence in the *Conceptual Framework for Financial Reporting*, published in 2018 (the 2018 IASB Conceptual Framework). The IASB did not include prudence as a qualitative characteristic, but, in the context of faithful representation, explained that "neutrality is supported by the exercise of prudence" and that "prudence is the exercise of caution when making judgments under conditions of uncertainty". The IASB characterized the approach adopted in the 2018 Conceptual Framework as "cautious prudence".

BC3.17B The IPSASB also noted that prudence had been the subject of much discussion in the European Public Sector Accounting Standards project.

BC3.17C Because of the above developments, the IPSASB reconsidered the approach to prudence in the 2014 Conceptual Framework: in particular whether prudence should be included as a qualitative characteristic in

its own right, or whether guidance on prudence should be included in the context of neutrality and faithful representation.

BC3.17D The IPSASB considered that prudence is insufficiently distinct from faithful representation to justify inclusion as an additional qualitative characteristic. Practical application of the IPSASB Conceptual Framework has also not identified that the non-inclusion of prudence as a qualitative characteristic is problematic.

BC3.17E The IPSASB acknowledged the case for retaining the approach in the 2014 Conceptual Framework on the grounds that an allusion to, and discussion of, prudence, adds little to the notion of neutrality, which itself conveys a lack of bias. However, the IPSASB concluded that clarifying that prudence entails caution in assessing uncertainty in the measurement of all elements would be beneficial and would respond to those who view the absence of references to prudence as a risk. The IPSASB is firmly of the view that caution should be applied consistently rather than focusing disproportionately on assets and revenue. The IPSASB therefore decided to include an explanation in paragraph 3.14A that, in the context of faithful representation, "neutrality is supported by the exercise of prudence", and that "prudence is the exercise of caution when making judgments under conditions of uncertainty". This is consistent with the approach of the IASB in its 2018 Conceptual Framework.

BC3.17F While most respondents to Exposure Draft (ED) 81, issued in February 2022, supported the proposed approach, a minority advocated the adoption of prudence as a qualitative characteristic. The IPSASB acknowledged this view but concluded that the consultation had not raised compelling reasons for the inclusion of prudence as a qualitative characteristic—in particular to substantiate a case that prudence is sufficiently distinct from faithful representation to justify inclusion as an additional qualitative characteristic. The IPSASB therefore confirmed the proposals in ED 81.

BC3.17G Some respondents to ED 81 considered that the contrast between symmetry and asymmetry had been insufficiently explained. The IPSASB agreed with this observation. The IPSASB did not consider that the principle in paragraph 3.14B that the exercise of prudence does not imply a need for asymmetry should be modified. Rather, there should be a clarification of what is meant by "asymmetry" in order to clarify the IPSASB's conclusion. The IPSASB confirmed that the most common attribute of asymmetry is that a higher standard of evidence is required for the recognition of assets and revenue than for liabilities and expenses. While there is no universally accepted definition of asymmetry the IPSASB also considered that the application of asymmetry might include:

- The non-recognition of all unrealized gains; or
- Permitting preparers to measure an asset at an amount lower than an unbiased estimate and a liability at an amount higher than an unbiased estimate under the measurement bases selected for the asset and the liability.

BC3.17H The IPSASB concluded that the introduction of such an approach would not result in information that is relevant and provides a faithful representation of an entity's financial position and financial performance. Therefore, such an approach would not meet the objectives of financial reporting identified in Chapter 2, *Objectives and Users of General Purpose Financial Reporting*.

Understandability

BC3.18 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.

BC3.19 Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

Timeliness

BC3.20 The IPSASB recognizes the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, and that undue delay in the provision of information may reduce its usefulness for these purposes. Consequently, timeliness is identified as a qualitative characteristic in the Conceptual Framework.

Comparability

BC3.21 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.

BC3.22 Some respondents to the 2010 Exposure Draft expressed concern that the explanation of the relationship between comparability and consistency might be read as presenting an obstacle to the on-going development of financial reporting. This was because enhancements in financial reporting often involve a revision or change to the accounting principles, policies or basis of preparation currently adopted by the entity.

BC3.23 Consistent application of the same accounting principles, policies and basis of preparation from one period to the next will assist users in assessing the financial position, financial performance and service delivery achievements of the entity compared with previous periods. However, where accounting principles or policies dealing with particular transactions or other events are not prescribed by IPSAS, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the entity from changing its accounting principles or policies to better represent those transactions and events. In these cases, the inclusion in GPFRs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

Verifiability

BC3.24 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. While closely linked to faithful representation, verifiability is identified as a separate qualitative characteristic because information may faithfully represent economic and other phenomena even though it cannot be verified with absolute certainty. In addition, verifiability may work in different ways with faithful representation and other of the qualitative characteristics to contribute to the usefulness of information presented in GPFRs—for example, there may need to be an appropriate balance between the degree of verifiability an item of information may possess and other qualitative characteristics to ensure it is presented in a timely fashion and is relevant.

BC3.25 In developing the qualitative characteristics identified in the Conceptual Framework, the IPSASB considered whether "supportability" should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represent the economic and other phenomena that they purport to represent.

BC3.26 Some respondents to the 2010 Exposure Draft expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB was of the view that the Conceptual Framework provides appropriate guidance on the application of verifiability in respect of these matters—for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Conceptual Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

Classification of the Qualitative Characteristics and Order of their Application

BC3.27 Some respondents to the 2010 Exposure Draft expressed the view that the Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They noted that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

BC3.28 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB was of the view that such an approach should not be adopted because, for example:

- Matters identified as "fundamental" might be perceived to be more important than those identified as "enhancing", even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important and work together to contribute to the usefulness of information. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision-making purposes could be considered as relevant information—therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and

- GPFRs of public sector entities may encompass historical and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto—for such trend data, reporting on a comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

BC3.29 At the time of issue of the 2010 Exposure Draft, Appendix A of IPSAS 1 described materiality with similar characteristics to that described in the Conceptual Framework, but identified materiality as a factor to be considered in determining only the relevance of information. Some respondents to the Exposure Draft noted that materiality may be identified as an aspect of relevance.

BC3.30 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFRs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS, materiality will be considered by preparers in determining whether, for example, a particular accounting policy should be adopted or an item of information should be separately disclosed in the financial statements of the entity.

BC3.31 However, the IPSASB took the view that materiality has a more pervasive role than would be reflected by its classification as only an entity-specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. Therefore, the materiality of an item should be considered when determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs. The IPSASB was also of the view that whether the effects of the application of a particular accounting policy or basis of preparation or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSAS and RPG. Consequently, the IPSASB was of the view that materiality is better reflected as a broad constraint on information to be included in GPFRs.

BC3.32 The IPSASB considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSAS. The IPSASB was of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept. Consequently, the IPSASB has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

BC3.32A In 2018 the IASB amended IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarified the definition of material in order to resolve difficulties that entities experience in making materiality judgments when preparing financial statements, and to align the definitions in both standards. Because of these changes the IASB made minor, but significant, amendments to Chapter 2, *Qualitative Characteristics of Useful Financial Information*, of its 2018 Conceptual Framework. First, an amendment complemented the guidance that information is material if omitting or misstating it could influence decision making with a reference to “obscuring information” as a

further factor. A second amendment softened the threshold for entities in determining when information is material.

BC3.32B In its Limited Scope Update project initiated in 2020 the IPSASB considered both changes in the context of public sector general purpose financial reporting. The IPSASB concluded that the reference to "obscuring information" is relevant to the public sector, as it suggests that, amongst other practices, the inclusion of immaterial disclosures can have a negative impact on users, rather than just being unnecessary. This is a relevant consideration for both the financial statements and other GPFRs. The IPSASB also concluded that modifying the wording on adversely influencing users by adding the words "reasonably be expected to influence" imposes a more realistic expectation on preparers' assessments of materiality. The IPSASB therefore decided to adopt these changes in its Conceptual Framework and amended paragraph 3.32 accordingly. In ED 81, the IPSASB proposed the addition of a sentence that "where an entity judges that a material item is not separately displayed on the face of a financial statement (or displayed sufficiently prominently) an entity considers disclosure". The intention was to provide further useful guidance to preparers.

BC3.32C The majority of respondents to ED 81 supported the addition of "obscuring information" as a factor relevant to materiality. They also supported softening the threshold for determining when information is material. Some respondents requested that the Conceptual Framework include examples of how material information is obscured. The IPSASB considers that the role of the Conceptual Framework is to provide high-level principles rather than to include detailed examples; such examples risk diverting attention from the core principle and are better provided elsewhere in the IPSASB's literature.

BC3.32D A number of respondents expressed reservations about the additional sentence in paragraph 3.32. These reservations highlighted two points. First, some respondents felt that the sentence risked undermining the principle in paragraph 6.9 of Chapter 6, *Recognition in Financial Statements*, that "the failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail". Second, some respondents felt that the sentence related to presentation and was therefore inappropriate for Chapter 3.

BC3.32E The IPSASB's intention was not to undermine the key principle that disclosure is not an alternative to recognition of an item that meets the definition of an element and the recognition criteria. However, the IPSASB accepted that the sentence risked such an interpretation. The IPSASB also accepted that issues of display and disclosure are addressed in Chapter 8, *Presentation in General Purpose Financial Reports*, and are inappropriate for Chapter 3. The IPSASB therefore decided not to include this additional sentence in the updated Chapter 3.

BC3.32F In the IASB's 2018 Conceptual Framework, materiality is an aspect of the qualitative characteristic of relevance, rather than a constraint on information in general purpose financial reports as in the IPSASB Conceptual Framework. In the Limited Scope Update the IPSASB did not reassess this classification. The IPSASB acknowledged that materiality can impact a number of qualitative characteristics.

BC3.32G In the Limited Scope Update the IPSASB acknowledged that in a number of jurisdictions, public sector entities are required to report on whether transactions have been recorded in accordance with governing legislation and regulations. In some jurisdictions such reports are referred to as a regularity assertion or statement. Auditors may be required to express an opinion on such statements, separate from that on the financial statements.

BC3.32H The IPSASB considered whether the Conceptual Framework should provide guidance on materiality considerations for regularity assertions/statements. Consistent with the reasoning in paragraph BC3.32, the IPSASB concluded that additional guidance is not justified.

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

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

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

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

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

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

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

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

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

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

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

Cost-Benefit

BC3.33 Some respondents to the 2010 Exposure Draft expressed concern that the text of the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSAS on the basis of their own assessments of the costs and benefits of particular requirements of an IPSAS. The IPSASB is of the view that such specification is not necessary. This is because, as noted in paragraph 1.2 of Chapter 1, Role and Authority of the Conceptual Framework, authoritative requirements relating to recognition, measurement, and presentation in GPFRs are specified in IPSAS. GPFRs are developed to provide information useful to users and requirements are prescribed by IPSAS only when the benefits to users of compliance with those requirements are assessed by the IPSASB to justify their costs. However, preparers may consider costs and benefits in, for example, determining whether to include in GPFRs disclosure of information in addition to that required by IPSAS.

BC3.34 Some respondents to the 2010 Exposure Draft also expressed concern that the proposed Conceptual Framework did not recognize that cost-benefit trade-offs may differ for different public sector entities. They were of the view that acknowledgement of this might provide a useful principle to be applied when considering differential reporting issues. The IPSASB considered these matters and determined that the Conceptual Framework should not deal with issues related to differential reporting, including whether the costs and benefits of particular requirements might differ for different entities.

BC3.35 In the process of developing an IPSAS or RPG, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from, for example, the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

CHAPTER 4: REPORTING ENTITY

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Introduction

4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFRs.

4.2 A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity—such a reporting entity is referred to as a group reporting entity.

Key Characteristics of a Reporting Entity

4.3 Key characteristics of a public sector reporting entity are that:

- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
- There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.

4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

4.5 GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFRs of that entity or group of entities for information for accountability or decision-making purposes.

4.6 GPFRs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise resources and/or use resources previously raised to undertake activities for the benefit of, or on behalf of, its constituents.

4.7 The factors that are likely to signal the existence of users of GPFRs of a public sector entity or group of entities include an entity having the responsibility or capacity to raise or deploy resources, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who are dependent on GPFRs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.

4.8 The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities for which such users exist are required to prepare GPFRs.

4.9 In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFRs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of a government at the national, state or local government level and for international public sector organizations. This is because these governments and organizations generally have the capacity to raise substantial resources from and/or deploy substantial resources on behalf of their constituents, to incur liabilities, and to impact the economic and/or social well-being of the communities that depend on them for the provision of services.

4.10 However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional judgment.

4.11 The government and some other public sector entities have a separate identity or standing in law (a legal identity). However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy resources, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these organizations, programs and activities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity.

Basis for Conclusions

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

Key Characteristics of a Reporting Entity

BC4.1 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes.

BC4.2 Reporting entities prepare GPFRs. GPFRs include financial statements, which present information about such matters as the financial position, performance and cash flows of the entity, and financial and non-financial information that enhances, complements and supplements the financial statements. Therefore, a key characteristic of a public sector reporting entity is the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes.

Legislation, Regulation or Other Authority

BC4.3 The Exposure Draft did not specify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFRs. It noted that the public sector organizations and programs that are to prepare GPFRs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.

BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, specify which entities are to prepare GPFRs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

Interpretation and Application

BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the Exposure Draft may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFRs in accordance with all IPSAS. Some respondents also noted that it was not clear how the guidance in the Exposure Draft applied to public sector organizations other than governments including, for example, international public sector organizations.

BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFRs is not a cost-free process. It also:

- Includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes; and
- Notes the likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including government departments and agencies and international public sector organizations.

BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, IPSAS respond to users' needs for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for separate disclosures within the GPFRs of that government or other public sector reporting entity[6]. Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFRs of particular public sector entities exist.

The Group Reporting Entity

BC4.8 The Exposure Draft outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:

- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities, and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
- To satisfy the objectives of financial reporting, GPFRs of a group reporting entity prepared in respect of a government or other public sector entity should include that government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity), or (b) expose it to a financial burden or loss.

BC4.9 Many respondents to the Exposure Draft noted their agreement with the IPSASB's view of the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. In some cases, they noted that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSAS. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity were more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of circumstances, and supported with specific examples of the circumstances likely to exist in many jurisdictions.

BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity—whether that reporting entity comprises a single public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.

[6] For example, International Public Sector Accounting Standards (IPSAS) such as IPSAS 18, *Segment Reporting* and IPSAS 22*, Disclosure of Financial Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities.

CHAPTER 5: ELEMENTS IN FINANCIAL STATEMENTS

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Introduction

Purpose of this Chapter

5.1 This Chapter defines the elements used in financial statements and provides further explanation about those definitions.

Elements and their Importance

5.2 Financial statements portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics. These broad classes are termed the elements of financial statements. Elements are the building blocks from which financial statements are constructed. These building blocks provide an initial point for recording, classifying and aggregating economic data and activity in a way that provides users with information that meets the objectives of financial reporting and achieves the qualitative characteristics of financial reporting while taking into account the constraints on information included in GPFRs.

5.3 The elements defined in this Chapter do not refer to the individual items that are recognized as a result of transactions and events. Sub-classifications of individual items within an element and aggregations of items are used to enhance the understandability of the financial statements. Presentation is addressed in Chapter 8, *Presentation in General Purpose Financial Reports*.

5.4 In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude IPSAS from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as “other resources” or “other obligations”) when necessary to better achieve the objectives of financial reporting.

Elements Defined

5.5 The elements that are defined in this Chapter are:

- Assets;
- Liabilities;
- Revenue;
- Expense;
- Ownership contributions; and
- Ownership distributions.

Assets

Definitions of an Asset and a Resource

5.6 An asset is:

A resource presently controlled by the entity as a result of past events.

5.6A A resource is:

A right to either service potential or the capability to generate economic benefits, or a right to both.

5.6B This section discusses three components of these definitions:

(a) Rights (paragraphs 5.7A–5.7G);

(b) Service potential and economic benefits (paragraphs 5.8–5.10); and

(c) Present control as a result of past events (paragraph 5.11–5.13).

5.7 [Deleted]

Rights

5.7A Rights to service potential or to the capability to generate economic benefits take many forms, including:

(a) Rights that correspond to an obligation of another party (see paragraph 5.16C), for example:

(i) Rights to receive cash;

(ii) Rights to receive goods or services[7];

(iii) Rights to exchange resources with another party on favorable terms. Such rights include, for example, a forward contract to buy a resource on terms that are currently favorable; and

(iv) Rights to benefit from an obligation of another party to transfer a resource if a specified uncertain future event occurs (see paragraph 5.16A).

(b) Rights that do not correspond to an obligation of another party, for example:

(i) Rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from a leased object; and

(ii) Rights to use intellectual property.

5.7B Many rights are established by binding arrangement, legislation, or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument such as a student loan, or from owning software or the right to use intellectual property. However, an entity might also obtain rights in other ways, for example:

(a) By acquiring or creating know-how that is not in the public domain, such as a traffic management plan; or

(b) Through an obligation of another party that arises because that other party has little or no realistic alternative to avoid a transfer of resources (see paragraph 5.15).

5.7C Some services—for example, employee services and services-in-kind—are received and immediately consumed. An entity's right to obtain the service potential or economic benefits produced by such services exists very briefly until the entity consumes the services.

5.7D Not all of an entity's rights are assets of that entity. To be assets of the entity, the rights must (i) have service potential or economic benefits beyond those available to all other parties (see paragraphs 5.8–5.10) and (ii) be controlled by the entity (see paragraphs 5.11–5.12A). Rights available to all parties without significant cost—for instance, rights of access to public goods, such as public rights of way over land, or know-how that is in the public domain—are typically not assets for the entities that hold these rights.

[7] Subsequent references to 'services' in the Conceptual Framework encompass 'goods' unless the context indicates otherwise.

5.7E In principle, each of an entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single unit of account that is a single asset (see paragraphs 5.26A–5.26J). For example, legal ownership of a physical object may give rise to several rights, including a right to:

(a) Use the object;

(b) Sell rights over the object; and

(c) Pledge rights over the object.

5.7F In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way.

5.7G The relationship between sovereign rights, resources and an asset is discussed in paragraph 5.13.

Service Potential and Economic Benefits

5.8 Service potential is the capability of a resource to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

5.9 Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets that are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas in which market competition is limited or non-existent. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.

5.10 Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:

- An asset's use in the production and sale of services; or
- The direct exchange of an asset for cash; or
- Extinguishing or reducing a liability by transferring an asset.

Presently Controlled by the Entity as a Result of Past Events

5.11 An entity must have control of the resource. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.

5.12 In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist:

- Legal ownership;
- Access to the resource, or the ability to deny or restrict access to the resource;
- The means to ensure that the resource is used to achieve its objectives; and
- The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.

5.12A Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to arrange for the distribution of goods controlled by the principal to eligible beneficiaries. If an agent has custody of a resource controlled by the principal, that resource is not an asset of the agent.

5.13 The definition of an asset requires that a resource that an entity presently controls must have arisen from one or more past transactions or other past events. The past transactions or other events that result in an entity gaining control of a resource and therefore an asset may differ. Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum, are examples of public sector-specific powers and rights that may give rise to assets. In assessing when an entity's control of rights to resources arise the following events may be considered: (a) a general ability to establish a power, (b) establishment of a power through a statute, (c) exercising the power to create a right, and (d) the event which gives rise to the right to receive resources from an external party. An asset arises when the power is exercised and the rights exist to receive resources.

Liabilities

Definition

5.14 A liability is:

A present obligation of the entity to transfer resources as a result of past events.

5.14A For a liability to exist, three criteria must all be satisfied:

(a) The entity has an obligation (paragraphs 5.15–5.15F);

(b) The obligation is to transfer resources (paragraphs 5.16A–5.16F); and

(c) The obligation is a present obligation arising from one or more past events (paragraphs 5.17–5.17D).

Obligations

5.15 Public sector entities can have a number of obligations. Obligations are binding when an entity has little or no realistic alternative to avoid them.

5.15A Binding obligations can be legal obligations or non-legally binding obligations. Binding obligations can arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of an external party is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for an obligation and a liability to exist.

5.15B Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an obligation involves a transfer of resources and gives rise to a liability. However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.

Legal Obligations

5.15C A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. There are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in

their own name, but where there are alternative processes with equivalent effect. Obligations that are binding through such alternative processes are considered legal obligations in the Conceptual Framework. For some types of non-exchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has little or no realistic alternative to avoid the obligation and that a liability exists.

5.15D Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.

5.15E Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Conceptual Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.

Non-Legally Binding Obligations

5.15F Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:

- The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

A Transfer of Resources from the Entity

5.16 [Deleted]

5.16A To satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer resources—the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the present obligation exists, and that, at least in one circumstance, it would require the entity to transfer resources.

5.16B An obligation can meet the definition of a liability even if the probability of a transfer of resources is low. Nevertheless, that low probability might affect decisions about the information provided about the liability and how the information is provided. Chapter 6 provides guidance on recognition and Chapter 7 provides guidance on measurement.

5.16C Obligations to transfer resources include, for example:

(a) Obligations to pay cash;

(b) Obligations to provide services or deliver goods;

(c) Obligations to exchange resources with another party on unfavorable terms. Such obligations include, for example, a forward contract to sell on terms that are currently unfavorable or an option that entitles another party to purchase resources from the entity;

(d) Obligations to transfer resources if a specified uncertain future event occurs; and

(e) Obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer a resource.

5.16D Instead of fulfilling an obligation to transfer resources to the party that has a right to receive resources, entities may in some circumstances:

(a) Settle the obligation by negotiating a release from the obligation;

(b) Transfer the obligation to a third party; or

(c) Replace the obligation to transfer resources with another obligation by entering into a new transaction.

5.16E In the situations identified in paragraph 5.16D an entity has an obligation to transfer resources until it has settled, transferred, or replaced that obligation.

5.16F In a principal-agent relationship (see paragraph 5.12A), if the agent has an obligation to transfer resources controlled by the principal to a third party, that obligation is not a liability of the agent. In such a case the resources that would be transferred are the principal's resources.

Present Obligation as a Result of Past Events

5.17 A present obligation is binding. To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of one or more past transactions or other past events and has the potential to require the entity to transfer resources from the entity.

5.17A A present obligation exists as a result of past events only if:

(a) The entity has already obtained service potential or economic benefits or taken an action[8]; and

(b) As a consequence, the entity will or may have to transfer resources that it would not otherwise have had to transfer.

5.17B In the public sector, obligations may arise at a number of points. For example, in implementing a program or service:

- Making a political promise such as an electoral pledge;
- Announcement of a policy;
- Introduction (and approval) of the budget (which may be two distinct points); and
- The budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been effected).

The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability. As noted in paragraph 5.15A an entity cannot be obligated to itself as a result of a public communication.

5.17C The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid a transfer of resources include:

- The nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely

[8] In the public sector a present obligation can arise from an obligation imposed by a higher level of government

creates a valid expectation on the part of external parties that the entity has an obligation that it has little or no realistic alternative to avoid settling. However, an announcement in relation to an event or circumstance that has occurred may have such political support that the government has little option to withdraw. Where the government has committed to introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation;

- The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented; and
- There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However, the absence of a budgetary provision does not itself mean that a present obligation has not arisen.

5.17D “Economic coercion”, “political necessity” or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.

5.18 [Deleted]

5.19 [Deleted]

5.20 [Deleted]

5.21 [Deleted]

5.22 [Deleted]

5.23 [Deleted]

5.24 [Deleted]

5.25 [Deleted]

5.26 [Deleted]

Assets and Liabilities

Unit of Account

5.26A The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which recognition criteria and measurement concepts are applied.

5.26B A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related revenue and expense. In some circumstances it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, arrangements may sometimes be recognized individually but measured as part of a portfolio of binding arrangements. For presentation and disclosure, assets, liabilities, revenue and expense may need to be aggregated or separated into components.

5.26C If an entity transfers part of an asset or part of a liability, the unit of account may change at that time, so that the transferred component and the retained component become separate units of account.

5.26D A unit of account is selected to provide useful information, which implies that:

(a) The information provided about the asset or liability and about any related revenue and expense must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating each right or obligation as a separate unit of account if, for example, those rights and obligations:

(i) Cannot be or are unlikely to be the subject of separate transactions;

(ii) Cannot or are unlikely to expire in different patterns;

(iii) Have similar characteristics and risks; or

(iv) Are used together in the operational activities conducted by an entity to provide services or to produce cash flows and are measured by reference to estimates of their interdependent service potential or future cash flows.

(b) Information provided about the asset or liability and about any related revenue or expense must faithfully represent the substance of a transaction or other event from which they have arisen. Therefore, it may be necessary to treat rights or obligations arising from different sources as a single unit of account, or to separate the rights or obligations arising from a single source. Equally, to provide a faithful representation of unrelated rights or obligations, it may be necessary to recognize and measure them separately.

5.26E In selecting a unit of account it is also important to consider the cost-benefit constraint of financial reporting discussed in Chapter 3. In general, the costs associated with recognizing and measuring assets, liabilities, revenue and expense increase as the size of unit of account decreases. Hence, in general, rights or obligations arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs.

5.26F One example of rights and obligations arising from the same source are binding arrangements, which establish both rights and obligations for each of the parties. If those rights and obligations are interdependent and cannot be separated, they constitute a single inseparable asset or liability and hence form a single unit of account.

5.26G Conversely, if rights are separable from obligations arising from the same source, it may sometimes be appropriate to group the rights separately from the obligations, resulting in the identification of one or more separate assets and liabilities. In other cases, it may be more appropriate to group separable rights and obligations in a single unit of account, treating them as a single asset or a single liability.

5.26H Treating a set of rights and present obligations as a single unit of account differs from offsetting assets and liabilities. Offsetting occurs when an entity recognizes and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

Binding Arrangements that are Equally Unperformed

5.26I Some binding arrangements, or portions of binding arrangements, may be equally unperformed whereby neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent. Such binding arrangements establish a combined right and obligation to exchange resources. The right and obligation are interdependent and cannot be separated. Hence the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favorable; it has a liability if the terms of the exchange are currently unfavorable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria (see Chapter 6) and the measurement basis selected for the asset and liability (see Chapter 7).

5.26J To the extent that either party fulfills its obligations under the binding arrangement, the binding arrangement changes character. If the reporting entity performs first under the binding arrangement, that performance is the event that changes the reporting entity's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's right and obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.

Net Financial Position, Other Resources, and Other Obligations

5.27 As explained in paragraph 5.4, in some cases, in developing or revising an IPSAS, the IPSASB may determine that to achieve the objectives of financial reporting a resource or obligation that does not satisfy the definition of an element defined in the Conceptual Framework needs to be recognized in the financial statements. In these cases, the IPSAS may require or allow these resources or obligations to be recognized as other resources or other obligations, which are items additional to the six elements defined in this Conceptual Framework.

5.28 Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position. Net financial position can be a positive or negative residual amount.

Revenue and Expense

Definitions

5.29 Revenue is:

Increases in the net financial position of the entity, other than increases arising from ownership contributions.

5.30 Expense is:

Decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

5.31 Revenue and expense arise from exchange and non-exchange transactions, other events such as unrealized increases and decreases in the value of assets and liabilities, and the consumption of assets through depreciation and erosion of service potential and capability to generate economic benefits through impairments. Revenue and expense may arise from individual transactions or groups of transactions.

Surplus or Deficit for the Period

5.32 The entity's surplus or deficit for the period is the difference between revenue and expense reported on the statement of financial performance.

Ownership Contributions and Ownership Distributions

Definitions

5.33 Ownership contributions are:

Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.

5.34 Ownership distributions are:

Outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.

5.35 It is important to distinguish inflows of resources from owners, including those inflows that initially establish the ownership interest, and outflows of resources to owners in their capacity as owners from revenue and

expense. In addition to the injections of resources and the payment of dividends that may occur, in some jurisdictions it is relatively common for assets and liabilities to be transferred between public sector entities. Where such transfers satisfy the definitions of ownership contributions or ownership distributions they will be accounted for as such.

5.36 Ownership interests may arise on the creation of an entity when another entity contributes resources to provide the new entity with the capacity to commence operational activities. In the public sector, contributions to, and distributions from, entities are sometimes linked to the restructuring of government and will take the form of transfers of assets and liabilities rather than cash transactions. Ownership interests may take different forms, which may not be evidenced by an equity instrument.

5.37 Ownership contributions may take the form of an initial injection of resources at the creation of an entity or a subsequent injection of resources, including those where an entity is restructured. Ownership distributions may be: (a) a return on investment; (b) a full or partial return of investment; or (c) in the event of the entity being wound up or restructured, a return of any residual resources.

Basis for Conclusions

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

Scope of Chapter

BC5.1 Respondents to the 2010 Consultation Paper, Elements and *Recognition in Financial Statements* (the 2010 Consultation Paper), questioned why the IPSASB was only addressing elements for the financial statements in this phase of the Conceptual Framework. They suggested that IPSASB should also develop elements for economic and other phenomena in the more comprehensive areas of financial reporting outside the financial statements. The IPSASB acknowledges the merits of these views and the need to develop such elements in the future. However, the IPSASB decided that in order to put its future standard-setting activities for the financial statements on a sound and transparent footing it is important to deal firstly with the development of elements for the financial statements.

BC5.2 The IPSASB acknowledges a view that cash inflows and cash outflows should be defined as elements of the cash flow statement. The IPSASB took the view that cash inflows and cash outflows are components of the elements identified in this Chapter, and that further guidance should be provided at standards level.

Limited Scope Update of Conceptual Framework

BC5.2A In March 2020 the IPSASB initiated a Limited Scope Update of the Conceptual Framework. The Limited Scope Update compared the definitions of an asset and a liability with the definitions in the IASB's Conceptual Framework, which was finalized in 2018 (2018 IASB Conceptual Framework). The guidance supporting the definitions was also reviewed to take account of experience in applying the Conceptual Framework in standards development and maintenance.

BC5.2B The Limited Scope Update also evaluated the case for including guidance on the unit of account and binding arrangements that are equally unperformed. The 2014 Conceptual Framework did not address these issues. The IPSASB approved an updated Chapter 5 in March 2023. The IPSASB started using updated Chapter 5 immediately once approved.

Assets

The Definition of an Asset

BC5.2C The definition of an asset in the 2014 Conceptual Framework was:

A resource presently controlled by the entity as a result of a past event.

BC5.2D The definition of an asset in the IASB's 2018 Conceptual Framework is:

A present economic resource controlled by the entity as a result of past events.

BC5.2E Neither the IPSASB nor the IASB definitions included wording that could be interpreted as recognition thresholds, such as "expected to flow".

BC5.2F The 2014 IPSASB and 2018 IASB definitions contain the same components—a resource/an economic resource; control; and a past event/past events. The only differences were:

(a) The IASB uses the term "economic resource", whereas the IPSASB uses the term 'resource'.

(b) The IASB attaches "present" to "economic resource", whereas the IPSASB Conceptual Framework attaches "presently" to control. The IASB's use of "present economic resource" mirrors a present obligation for a liability.

(c) The IASB uses “past events” (plural). The IPSASB used “past event” (singular). The IPSASB formulation was intended to indicate that there need be only one past event in order for the definition of an asset to be met.

BC5.2G The IPSASB considered the rationale for using the terms “resource” and “presently controlled”. The IPSASB considers that a resource is inherently economic and that the use of “economic resource” might be confused with “economic benefits”, because of the guidance that rights with service potential are resources as well as those with the capability to generate economic benefits. The term “presently controlled” reinforces the key point that control of a resource must be evaluated at the reporting date, rather than in the future. The prospect of control in the future is not sufficient to meet the asset definition. The IPSASB therefore reaffirmed the use and location of these terms.

BC5.2H The IPSASB considered that the use of the plural “past events” rather than the singular “past event” better conveys the point that resources can accumulate over time due to an initial past event and further past events. An example is a binding arrangement for the delivery of services to third party beneficiaries in which one party receives resources from another party in order to finance the arrangement. The resource recipient accumulates assets as it incurs eligible expenditure or completes specified activities in accordance with the binding arrangement. The term “past events” includes the scenario where a single past event gives rise to an asset.

BC5.2I The revised definition of an asset is therefore:

A resource presently controlled by the entity as a result of past events.

BC5.2J In the Limited Scope Update the IPSASB reviewed the sequencing of guidance and restructured the guidance so that it reflected the components of the definition of an asset more clearly.

A Resource

BC5.3 The 2014 Conceptual Framework provided guidance that a resource provides benefits to an entity in the form of service potential or the ability to generate economic benefits or both. In reaching its conclusions on the nature of a resource the IPSASB considered whether the benefits of the resource must have already flowed to an entity in order for a resource to exist. However, the IPSASB concluded that resources themselves embody benefits—benefits that can be accessed by the entity that controls the rights to these benefits. The IPSASB also considered the nature of the benefits (see paragraphs BC5.7 and BC5.8) and control (see paragraphs BC5.9–BC5.14).

BC5.3A The 2014 Conceptual Framework made a distinction between (i) service potential and the ability[9] to generate economic benefits that can arise directly from legal ownership of the resource and (ii) service potential and the capability to generate economic benefits that arise from other rights to use the resource.

BC5.3B The 2018 IASB Conceptual Framework considered but decided not to make the distinction outlined in paragraph BC5.3A. The IASB took the view that “ownership of a physical object arises because of rights conferred by law and that, although they differ in extent, the rights conferred by full legal ownership of a physical object and by a contract to use an object for 99% (or 50% or even 1%) of its useful life are all rights of one kind or another”. The IASB also considered that there may be inconsistencies of what constitutes legal ownership in different jurisdictions or at different dates. In summary, the IASB guidance reflects a view that legal ownership is a particular form of right rather than a separate phenomenon.

BC5.3C The IPSASB acknowledged the view that physical ownership gives rise to a specific type of control and that this should be reflected conceptually. According to this view, from an accountability perspective, a conceptual

[9] In the updated Conceptual Framework, the IPSASB uses the phrase ‘capability to generate economic benefits’, rather than ‘ability to generate economic benefits’.

approach, which might lead to underlying assets not being recognized as a single unit of account, risks not meeting the qualitative characteristic of understandability.

BC5.3D However, on balance, the IPSASB decided to adopt a more overtly rights-based approach. In particular, the IPSASB concluded that the view that legal ownership is a type of right rather than a separate phenomenon was persuasive.

BC5.3E The 2018 IASB Conceptual Framework acknowledged that in many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. The IPSASB inserted paragraph 5.7F providing guidance that describing the set of rights as the physical item will often provide a faithful representation of those rights in the most concise and understandable way.

BC5.3F The IPSASB considered whether it should augment the guidance on a resource with guidance drawn from the 2018 IASB Conceptual Framework. The IPSASB decided that the following guidance should be added on issues on which the 2014 Conceptual Framework had previously been silent:

- Rights can be classified as those that correspond to an obligation of another party and those that do not correspond to an obligation of another party (paragraph 5.7A).
- Ways in which rights can be established (paragraph 5.7B).
- When services are received and immediately consumed, an entity's right to obtain the service potential or/and economic benefits produced by such services exists very briefly until the entity consumes the services. This is consistent with the approach to services in- kind at the standards level where certain services in-kind are received as an asset and immediately consumed (paragraph 5.7C).
- Not all rights are assets of an entity (paragraph 5.7D).
- In principle each of an entity's rights is a separate asset (paragraph 5.7E).
- In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset (paragraph 5.7F; also noted above in paragraph BC5.3E).

BC5.3G Some respondents to Exposure Draft 81 opposed the more overtly rights-based approach. In particular, they disagreed with the potential non-recognition of physical assets in their entirety in the financial statements. They considered that this undermines accountability.

BC5.3H The IPSASB acknowledged this point. Paragraphs 5.7E and 5.7F state related rights are often treated as a single unit of account that is a single asset and that, in many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. There may be cases where different entities have different rights over an asset. In the IPSASB's view the economics of such arrangements should be reflected in the accounting.

Unconditional Rights

BC5.4 Unconditional rights to resources typically result from binding arrangements that require provision of resources to the entity in the future. The IPSASB notes that there can be a large number of such rights and acknowledged that unconditional rights that represent service potential or the capability to generate economic benefits that are controlled by the entity as a result of a past event give rise to assets. Whether such assets are recognized depends on whether the recognition criteria have been satisfied. The IPSASB concluded that the consequences of application of the definition of an asset to unconditional rights should be addressed at standards level.

BC5.5 [Deleted]

BC5.6 [Deleted]

Service Potential and Economic Benefits

BC5.7 The term “service potential” has been used to identify the capability of an asset to provide services in accordance with an entity’s objectives. The term “economic benefits” has been used to reflect the capability of an asset to generate net cash inflows. Some argue that economic benefits includes service potential. Others argue that service potential includes economic benefits—a further view is that the terms can be used interchangeably. The IPSASB considered whether the explanation of a resource should include a reference to both service potential and the capability to generate economic benefits.

BC5.8 The IPSASB noted that many respondents to the 2010 Consultation Paper and 2012 Exposure Draft, *Elements and Recognition in Financial Statements* supported inclusion of a specific reference to service potential as a characteristic of an asset, because of the service delivery objectives of most public sector entities. The IPSASB therefore concluded that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows.

BC5.8A In the Limited Scope Update the IPSASB reaffirmed the term “service potential” as an attribute of a resource. In the description of service potential in paragraph 5.8, the IPSASB changed the wording “the capacity to provide services” to “the capability to provide services”, because of the ambiguity of “capacity”. Capacity has the same meaning of ability, but in other usages can mean the adequacy, availability and volume of resources. The IPSASB acknowledged that in many languages “capacity” and “capability” will translate similarly. In addition, the IPSASB made a modification to the wording of economic benefits in the description of a resource in paragraph 5.8 and acknowledged that an item can have both service potential and the capability to generate economic benefits. Guidance on the treatment of such assets is provided at the standards level.

Control

BC5.9 The IPSASB considered whether control is an essential characteristic of an asset or whether other indicators should be identified as essential characteristics of an asset including:

- Legal ownership;
- The right to access, and to restrict or deny the access of external parties to, the resource;
- The means to ensure that the resources are used to achieve the entity’s objectives; and
- The existence of enforceable rights to service potential or economic benefits arising from a resource.

The IPSASB acknowledges the views of those who argue that control may be difficult to apply in some cases because it requires judgment to assess whether control exists. In addition, control can be erroneously applied to a resource in its entirety and not to the individual benefits that accrue from the resource. However, notwithstanding such difficulties, the IPSASB concluded that control is an essential characteristic of an asset because the presence of control facilitates the association of an asset with a specific entity.

BC5.10 Legal ownership of a resource, such as a property or item of equipment, is one method of accessing the service potential or economic benefits of an asset. However, rights to service potential or the capability to generate economic benefits may exist without legal ownership of the underlying resource. For example, the rights to service potential or the capability to generate economic benefits through the holding and use of leased property are accessed without legal ownership of the leased asset itself. Therefore, legal ownership of the resource is not an essential characteristic of an asset. Legal ownership is, however, an indicator of control.

BC5.11 The right to access a resource may give an entity the ability to determine whether to:

- Directly use the resource's service potential to provide services to beneficiaries;
- Exchange the resource for another asset, such as cash; or
- Use the asset in any of the other ways that may provide services or generate economic benefits.

BC5.12 While access to a resource is crucial, there are resources to which an entity has access which do not give rise to assets, such as air. Therefore, the ability to access a resource must be supplemented by the ability to deny or restrict the access of others to that resource—for example, (a) an entity might decide whether to set an entrance fee to a museum and restrict access to those who do not pay the fee, and (b) government may control a natural resource under its land to which it can restrict the access of others. Legally enforceable claims to specific resources, such as a right of access to a road or a right to explore land for mineral deposits, could represent an asset to the holder. However, an entity may be able to access the service potential or capability to generate economic benefits associated with a resource in ways that do not require legal rights. The IPSASB took the view that the factors identified in paragraph BC5.9 are likely to be indicators of the existence of control rather than essential characteristics of the definition of an asset.

BC5.13 The IPSASB also considered whether the economic ownership approach is a viable alternative to the control approach. The economic ownership approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity. Some respondents to the 2012 Exposure Draft, in supporting the control approach, commented on the complexity of the economic ownership approach. The IPSASB concluded that the economic ownership approach is subjective and difficult to operate, and therefore rejected this approach.

BC5.14 The IPSASB considered whether an analysis of exposure to the risks and rewards of ownership is a useful indicator of control. The control approach focuses on the power of the entity to direct how the resource is used in order to benefit from the service potential and/or capability to generate economic benefits embodied in the resource. The risks and rewards approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity and the related risks. Consideration of the risks and rewards associated with particular transactions and events, and which party to any transaction or event bears the majority of those risks and rewards, may be relevant and useful in identifying the nature of the asset controlled by parties to the transaction or event. It may also be useful in determining how to quantify and associate the economic rights and obligations with particular parties. However, it is not of itself an indicator of the party that controls an asset. The IPSASB therefore decided not to include the risks and rewards of ownership as an indicator of control.

BC5.14A In the Limited Scope Update the IPSASB noted that the 2018 IASB Conceptual Framework included guidance on the principal-agent relationship. The 2014 IPSASB Conceptual Framework did not include guidance that in principal-agent relationships custody of a resource controlled by a principal does not give rise to an asset of the agent. While this is implicit in paragraph 5.11, the IPSASB considered that explicit guidance would be useful to underpin standards-level guidance and has therefore inserted a new paragraph 5.12A. The IPSASB included equivalent guidance for liabilities in paragraph 5.16F.

Past Events

BC5.15 Some respondents to the 2010 Consultation Paper and 2012 Exposure Draft argued that identification of a past transaction or other event which gives rise to the asset should be an essential characteristic of the definition of an asset. Others take the view that the identification of a past event is not necessary and should not therefore be an essential characteristic. They consider that such a requirement places undue emphasis on identifying the past event that gave rise to an asset. Such emphasis may be a distraction and lead to debates about which event is the triggering event instead of the more important issue of whether rights to resources exist at the reporting date. Those who take this view consider that the essential characteristic of

an asset should be the existence of a resource. Some may accept that a past event provides useful supporting evidence of the existence of an asset, but not that it should be an essential characteristic.

BC5.16 Many respondents took the view that a past event should be identified as an essential characteristic of the definition of an asset. The IPSASB agrees with these respondents—in particular, that the complex nature of many public sector programs and activities means that there are a number of points at which control of a resource might arise. Therefore, the IPSASB concluded that identification of the appropriate past event is crucial in identifying whether an asset exists.

BC5.17 The powers and rights of government are particularly significant for the identification of assets. The power to tax and issue licenses, and other powers to access or to deny or restrict access to the benefits embodied in intangible resources like the electromagnetic spectrum, are examples of sovereign powers. It is often difficult to determine when such powers give rise to a right that is a resource and asset of the entity.

BC5.18 A government's power to establish a right to levy a tax or fee, for example, often begins a sequence of events that ultimately results in the flow of economic benefits to the government. The IPSASB considered two views of when an asset arises from the powers and rights of government to levy a tax or fee. The first view is that the government has an inherent power to tax at every reporting date and, therefore, that the general ability to levy taxes or fees is an asset. Proponents of this view accept that such an asset is unlikely to be capable of faithfully representative measurement, but argue that this should not deflect from an acknowledgement that government has a perpetual asset. The contrary view is that the power to levy taxes and fees must be converted into a right by legal means, and that such a right must be exercised or exercisable in order for an asset to come into existence. Many respondents to the 2010 Consultation Paper and 2012 Exposure Draft supported this latter view. The IPSASB agrees with these respondents. In particular, the IPSASB concluded that a government's inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits. The updated definition of an asset and supporting guidance does not affect either the discussion of sovereign powers and rights or the key principle that an asset arises when the power is exercised, and the rights exist to receive resources.

Liabilities

BC5.18A The definition of a liability in the 2014 Conceptual Framework was:

A present obligation of the entity for an outflow of resources that results from a past event.

BC5.18B The definition of a liability in the IASB's 2018 Conceptual Framework is:

A present obligation of the entity to transfer an economic resource as a result of past events.

BC5.18C As for the asset definition (see above paragraphs BC5.2A–BC5.2J) both IPSASB and IASB definitions contained the same or similar components—resources/an economic resource; outflow of resources/transfer of resources; and a past event/past events. The differences were:

(a) As in the asset definitions, the IASB uses the term "economic resource", whereas the IPSASB uses the term "resource". The IPSASB's reason for retaining the term "resource" is discussed in paragraph BC5.2G.

(b) The IASB definition replaced the term "outflow of resources" with "transfer of an economic resource". This was largely because of the linkage of the term an outflow of resources with the expectation of such an outflow and therefore potential confusion with a recognition threshold.

(c) As in the asset definition, the IASB uses "past events" (plural). The IPSASB used "past event" (singular). The IPSASB formulation was intended to indicate that there need be only one past event in order for the definition to be met.

BC5.18D The IPSASB was persuaded by the adoption of the term transfer of resources and considered the standards-level implications of the adoption of the term "transfer of resources" in the revised definition of a liability at the standards-level.

BC5.18E The IPSASB noted that the term "transfers" is defined in IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers). A project to replace IPSAS 23 was underway at the time that the Limited Scope Update took place. The IPSASB concluded that any ambiguities or inconsistencies between conceptual and standards levels could be mitigated by adjustments to new defined terms and the provision of guidance on what a transfer of resources involves. Such guidance is in paragraphs 5.16A–5.16E.

BC5.18F Consistent with the analysis for assets at BC5.2H the IPSASB considered that the use of the plural "past events" rather than the singular "past event" better conveys that present obligations that give rise to liabilities can accumulate over time due to an initial past event and further past events.

BC5.18G The revised definition of a liability is:

A present obligation of the entity to transfer resources as a result of past events.

BC5.18H Most respondents to Exposure Draft 81 supported the revised definition. Some respondents expressed unease about the term 'transfer of resources', which they felt had particular public sector connotations. The IPSASB felt that such reservations could be allayed through clear supporting guidance (see below paragraph BC5.19F). The IPSASB therefore decided to adopt this definition in the revised Chapter 5.

BC5.18I Similarly to the guidance on assets, the IPSASB considered the sequencing of guidance on liabilities and restructured the guidance so that it reflected the components of the definition of a liability more clearly. The revised structure also drew on the approach in the IASB's 2018 Conceptual Framework in describing the characteristics of an obligation more clearly and linking a present obligation to a past event. This necessitated a relocation of guidance. The revised guidance is in paragraphs 5.14A–5.17D.

BC5.18J There was strong support for the restructuring of the guidance on liabilities. No new issues arose from the consultation. The IPSASB therefore decided to adopt the restructured guidance in the revised Chapter 5.

A Present Obligation

BC5.19 In considering when obligations are present obligations, the IPSASB accepts that a legal obligation gives rise to a present obligation. In some jurisdictions, public sector entities are not permitted to enter into certain legal arrangements, but there are equivalent mechanisms that give rise to a present obligation. Such mechanisms are considered legally binding. The IPSASB then considered how to classify obligations that are not legal obligations. The IPSASB noted that "constructive obligation" is a term embedded in standard-setting literature globally and has been used in IPSAS. However, it has proved difficult to interpret and apply in a public sector context. Therefore, the IPSASB considered alternative terminology, for example the term "a social or moral duty or requirement." The IPSASB has concerns that the term "social" might be confused with political values and that the term "moral obligations" risks a perception that standard setters and preparers are arbiters of morality. Therefore, the IPSASB decided that making a distinction between "legally binding" and "non-legally binding obligations" is the most straightforward and understandable approach. The IPSASB considered and rejected the view that the term "non-legally binding obligations" might be interpreted as referring to obligations, the legality of which is questionable. Paragraphs BC5.30–BC5.34 discuss non-legally binding obligations and explain their meaning for the purposes of the Conceptual Framework.

A Transfer of Resources

BC5.19A The guidance on "an outflow of resources from the entity" in the 2014 Conceptual Framework was limited to statements that "a liability must involve an outflow of resources from the entity for it to be settled" and that "an obligation that can be settled without an outflow of resources from the entity is not a liability".

BC5.19B In IPSASB's Revenue project some constituents indicated that ED 71, *Revenue without Performance Obligations*, was not clear on what gives rise to a liability in a binding arrangement. It became evident that this lack of clarity was partly attributable to uncertainty over what constitutes an outflow of resources from the entity.

BC5.19C The IPSASB noted that the 2018 IASB Conceptual Framework includes guidance on the application of a transfer of resources. With appropriate changes for public sector terminology, this guidance has been added in paragraphs 5.16A–5.16E of Chapter 5:

(a) Paragraph 5.16A states that the obligation must have the potential to require the entity to transfer a resource to another party or parties. The transfer does not have to be certain or even likely and might be dependent on a specified uncertain future event occurring.

(b) Paragraph 5.16B states that an obligation can meet the definition of a liability even if the probability of a transfer of a resource is low.

(c) Paragraph 5.16C provides examples of obligations to transfer a resource.

(d) Paragraph 5.16D indicates that rather than fulfill an obligation to transfer a resource to another party, entities may sometimes negotiate release from the obligation, transfer the obligation to a third party or replace the obligation with another obligation by entering into a new transaction. This paragraph reflects that in the public sector an entity's ability to extinguish or reduce a present obligation other than by fulfillment may be limited.

(e) Paragraph 5.16E states that in the situations described in paragraph 5.16D an entity has an obligation to transfer a resource until it has negotiated release from the obligation, transferred the obligation, or replaced the obligation.

BC5.19D The IPSASB emphasized that the ability to extinguish or reduce a present obligation by methods other than fulfillment does not mean that an entity has a realistic alternative of avoiding a transfer of resources and therefore a rationale for non-recognition of a present obligation as a liability, which otherwise meets recognition criteria.

BC5.19E The 2014 Conceptual Framework included guidance that "if an obligation is contingent on future events occurring, there may be discretion to avoid an outflow of resources before these events occur". The IPSASB has deleted this guidance because it was inconsistent with the statement in paragraph 5.16A. that "to satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties)".

BC5.19F The majority of respondents to ED 81 supported the enhanced guidance on "the transfer of resources". Some respondents felt that the term "transfers" has a particular connotation in the public sector, denoting transfers between different levels of government and transfers to individuals and households. They felt that there might be confusion between the broader usage in the Conceptual Framework and requirements and guidance at the standards level. The IPSASB acknowledged this point but felt that any confusion could be minimized by the use of clearly defined terms at the standards level.

BC5.19G A view was expressed in the consultation response that the Conceptual Framework should provide guidance on obligations related to the Treasury Single Account. The Treasury Single Account is an account or a set of linked accounts through which receipts and payments are transacted for all government departments. The IPSASB acknowledged that the Treasury Single Account is an important mechanism for central government financial administration in many jurisdictions. However, the IPSASB considered that the operation of the Treasury Single Account is too low-level a topic to be addressed in the Conceptual Framework.

Conditional and Unconditional Obligations

BC5.20 In the context of a present obligation, the IPSASB considered whether "conditional" and "unconditional" obligations, "stand-ready obligations" and "performance obligations" might be present obligations.

BC5.21 An unconditional obligation is one that stands on its own, independent of future events. Unconditional obligations give rise to liabilities if the definition of a liability is satisfied. A conditional obligation involves the possible occurrence of a future event, which may or may not be under the control of the reporting entity. The IPSASB concluded that it is possible for conditional obligations to give rise to liabilities as defined in the Conceptual Framework. Determining whether a conditional obligation satisfies the definition of a liability will involve consideration of the nature of the obligation and the circumstances in which it has arisen. Given the complexity of public sector programs and activities, identifying the past event (or events), which has (have) resulted in the entity having little or no realistic alternative to avoid an outflow of resources, often may not be straightforward. Guidance on whether conditional obligations that exist in particular arrangements or circumstances may give rise to liabilities consistent with the definitions identified in the Conceptual Framework is a standards-level issue.

BC5.22 A variety of terms are used to describe present obligations that may arise from, or exist in conjunction with, conditional obligations in particular circumstances. Amongst these are stand ready-obligations and performance obligations. The characteristics of these obligations and the conclusions reached by the IPSASB in the context of the Conceptual Framework are outlined below.

Stand-Ready Obligations

BC5.23 Stand-ready obligations are a type of conditional obligation. Stand-ready obligations require an entity to be prepared to fulfill an obligation if a specified uncertain future event outside the entity's control occurs (or fails to occur). The term stand-ready obligation is used to describe a liability that may arise in certain contractual circumstances, such as those related to insurance, certain financial instruments such as a derivative contract in a loss position, and for warranties where the entity has an obligation to transfer resources if a specified future event occurs (or does not occur). In such circumstances, there may be an identifiable past event and an outflow of resources from the entity, although the exact identity of the party to whom settlement will be made will not generally be known.

BC5.24 The 2010 Consultation Paper included a discussion of stand-ready obligations. Many respondents found the distinction between a stand-ready obligation and other conditional obligations ambiguous. The 2012 Exposure Draft explained that the term stand-ready obligation is not widely used in the public sector, does not work well in certain public sector circumstances, and suggested that whether a stand-ready obligation gave rise to a liability is a standards-level issue. Some respondents did not agree with the explanation in the 2012 Exposure Draft, and expressed a view that the Conceptual Framework should provide guidance for use at the standards level on whether stand-ready obligations can give rise to liabilities in certain circumstances.

BC5.25 A public sector entity's obligation to transfer resources to another entity in particular circumstances that may occur in the future includes, for example, as a potential lender of last resort and in support of programs that provide a wide range of social benefits. The existence of an obligation to transfer resources to another party in these circumstances may be dependent on ongoing satisfaction of a number of conditions of differing significance and nature that are subject to change by the government or public sector entity. The IPSASB is of the view that the circumstances in which liabilities arise as a consequence of the obligation of a public sector entity to transfer resources to other parties consistent with the terms of programs, and how such liabilities should be described and accounted for, should be considered at the standards level consistent with the principles established in the Conceptual Framework. The IPSASB decided that the Conceptual Framework should not resolve whether all obligations that might be classified as stand-ready meet the

definition of a liability. The IPSASB also decided not to use the term "stand-ready obligation" in the Conceptual Framework.

Performance Obligations

BC5.26 A performance obligation is an obligation in a contract or other binding arrangement between an entity and an external party to transfer a resource to that other party. Performance obligations are often explicitly stated in a contract or other arrangement. Not all performance obligations are explicit. For example, a statutory requirement may give rise to an implicit performance obligation of a public sector entity that is additional to the terms of an agreement or contract.

BC5.27 A performance obligation also arises when an entity enters into an arrangement whereby it receives a fee and, in return, provides an external party with access to an asset of the government. The IPSASB concluded that it is not necessary to identify a specific external party for a performance obligation to arise, but it is important to analyze such obligations in order to determine whether they include a requirement to provide an outflow of resources. Obligations that require an entity to provide access to a resource, but do not entail a transfer of resources do not give rise to liabilities. However, obligations that require an entity to forgo future resources may be liabilities. Performance obligations are often conditional obligations. Determining whether such obligations give rise to liabilities is dependent upon the terms of particular binding agreements and may vary between jurisdictions. The IPSASB concluded that the circumstances under which performance obligations give rise to liabilities should be considered at the standards level.

Past Events

BC5.28 The IPSASB considered whether the definition of a liability should require the existence of a past transaction or other event. Some take the view that identification of a past event is not an essential characteristic of a liability, and that, consequently, there is no need for the definition of a liability to include a reference to a past event. These commentators argue that there may be many possible past events and that establishing the key past event is likely to be arbitrary. They suggest that the identification of a past event is not a primary factor in determining whether a liability exists at the reporting date. This view mirrors the opposition to the inclusion of a past event in the definition of an asset, which is discussed in paragraphs BC5.15–BC5.18.

BC5.29 The IPSASB acknowledges this view, but also noted that many respondents to the 2010 Consultation Paper and 2012 Exposure Draft consider that a past event is a characteristic of a liability. The IPSASB agrees with the view that the complexity of many public sector programs and activities and the number of potential points at which a present obligation might arise means that, although challenging, identification of the past event that gives rise to a liability is critical in determining when public sector liabilities should be recognized. The IPSASB reconsidered whether the definition of a liability should include a reference to past event(s) in the Limited Scope Update in 2020. The IPSASB reaffirmed the importance of past events and linked past events to present obligations.

An Incremental Transfer of Resources as a Result of Past Events

BC5.29A In developing proposals on revenue, the IPSASB acknowledged that the transfer of resources arising from a binding arrangement must be incremental in order to give rise to a liability. Paragraph 4.43 of the 2018 IASB Conceptual Framework provides guidance that the concept "as a result of past events" means that:

(a) An entity has already obtained economic benefits or taken an action; and

(b) As a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

BC5.29B This guidance establishes a principle that, in order to meet the definition of a liability, the past events must give rise to an incremental transfer of resources. An obligation, which can be fulfilled without an incremental transfer of resources, is not a present obligation and does not meet the definition of a liability.

Little or No Realistic Alternative to Avoid

BC5.30 Some respondents to the 2012 Exposure Draft expressed concerns that the phrase "little or no realistic alternative to avoid" in the description of a present obligation is open to different interpretations. They proposed removal of the words "little or" from this phrase in order to reduce the potential for misinterpretation. The IPSASB considered this proposal. The IPSASB was concerned that such a change might be interpreted as establishing a threshold test of virtual certainty in determining whether a present obligation exists. The IPSASB considers such a threshold too high.

BC5.31 Determining when a present obligation arises in a public sector context is complex and, in some cases, might be considered arbitrary. This is particularly so when considering whether liabilities can arise from obligations that are not enforceable by legal or equivalent means. In the context of programs to deliver social benefits there are a number of stages at which a present obligation can arise and there can be significant differences between jurisdictions, even where programs are similar, and also over time within the same jurisdiction —for example, different age cohorts may have different expectations about the likelihood of receiving benefits under a social assistance program. Assessing whether a government cannot ignore such expectations and therefore has little or no realistic alternative to transfer resources may be subjective. This gives rise to concerns that such subjectivity undermines consistency in the reporting of liabilities, and can also impact adversely on understandability. Some therefore take the view that an essential characteristic of a liability should be that it is enforceable at the reporting date by legal or equivalent means.

BC5.32 A converse view is that where a government has a record of honoring obligations, failing to recognize them as liabilities leads to an overstatement of that government's net financial position. According to this view, if a government has a consistent record of raising citizen expectations through publicly-announced obligations to provide financial support—for example to the victims of natural disasters—and has met such obligations in the past, a failure to treat such obligations as liabilities is not in accordance with the objectives of financial reporting, and leads to the provision of information that does not meet the qualitative characteristics of faithful representation and relevance.

BC5.33 On balance, the IPSASB agrees with those who argue that, in the public sector, liabilities can arise from binding obligations that the entity has little or no realistic alternative to avoid, even if they are not enforceable in law. The IPSASB decided to use the term "non-legally binding obligations" for such obligations in the Conceptual Framework. However, the IPSASB acknowledges the views of those who are skeptical that liabilities can arise from obligations that are not legally enforceable. Consequently, paragraph 5.15F of this Chapter identifies the attributes that a non-legally binding obligation is to possess for it to give rise to a liability.

BC5.34 The wide variation in the nature of public sector programs and operations, and the different political and economic circumstances of jurisdictions globally, means that categorical assertions of the circumstances under which obligations not enforceable in law become binding and give rise to present obligations are inappropriate. However, the IPSASB is of the view that present obligations are extremely unlikely to arise from election pledges. This is because electoral pledges will very rarely, (a) create a valid expectation on the part of external parties that the entity will honor the pledge, and (b) create an obligation which the entity has no realistic alternative but to settle. Therefore, the Conceptual Framework includes a presumption that liabilities do not arise from electoral pledges. However, it is accepted that in practice a government with a large majority will be better placed to enact intended legislation than a minority government, and that there may be infrequent circumstances where a government announcement in such circumstances might give rise to a liability. In assessing whether, in these circumstances, a non-legally binding obligation gives rise to a

liability the availability of funding to settle the obligation may be an indicator. This is discussed in paragraph 5.17C.

Sovereign Power to Avoid Obligations

BC5.35 The sovereign power to make, amend and repeal legal provisions is a key characteristic of governments. Sovereign power potentially allows governments to repudiate obligations arising from both exchange and non-exchange transactions. Although in a global environment such a power may be constrained by practical considerations, there are a large number of examples of governments defaulting on financial obligations over the last century. The IPSASB considered the impact of sovereign power on the definition of a liability. The IPSASB concluded that failing to recognize obligations that otherwise meet the definition of a liability on the grounds that sovereign power enables a government to walk away from such obligations would be contrary to the objectives of financial reporting and, in particular, may conflict with the qualitative characteristics of relevance and faithful representation. Many respondents to the Consultation Paper and the Exposure Draft supported this position. The IPSASB therefore concluded that the determination of the existence of a liability should be by reference to the legal position at the reporting date.

Commitments

BC5.36 Commitment accounting procedures are a central component of budgetary control for public sector entities in many jurisdictions. They are intended to assure that budgetary funds are available to meet the government's or other public sector entity's responsibility for a possible future liability, including intended or outstanding purchase orders and contracts, or where the conditions for future transfers of funds have not yet been satisfied. Commitments which satisfy the definition of a liability and the recognition criteria are recognized in financial statements, in other cases information about them may be communicated in notes to the financial statements or other reports included in GPFRs. The IPSASB concluded that commitment accounting might be addressed in the future when dealing with elements for the more comprehensive areas of general purpose financial reporting outside the financial statements.

Unit of Account and Accounting Principles for Binding Arrangements that are Equally Unperformed

Unit of Account

BC5.36A The 2018 IASB Conceptual Framework describes unit of account as 'the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and management concepts are applied'.

BC5.36B The IPSASB took the view that unit of account was a standards-level issue during the development of the 2014 IPSASB Conceptual Framework and there was no guidance on unit of account. Since 2014 the importance of decisions on the unit of account has been highlighted in a number of projects and led the IPSASB to reevaluate the case for high-level guidance.

BC5.36C The IPSASB decided that guidance in the Conceptual Framework would be beneficial in informing standards-level requirements and guidance on unit of account. The IPSASB drew on the 2018 IASB Framework for this guidance, which is in paragraphs 5.26A–5.26J. The guidance on consideration of how the selection of a unit of account provides useful information in the 2018 IASB Conceptual Framework is in the context of the qualitative characteristics of relevance and faithful representation. The IPSASB took the view that other qualitative characteristics may need to be taken into account in assessing whether information is useful in determining the unit of account.

BC5.36D There was considerable support for the Conceptual Framework providing guidance on the unit of account. The only significant issue to arise was the location of the guidance on accounting for binding arrangements

that are equally unperformed (see paragraph BC5.36H). The IPSASB decided that Chapter 5 should address unit of account.

BC5.36E The IPSASB considered whether the unit of account for recognition could differ from the unit of account for measurement. The IPSASB acknowledged that it is possible that items might be recognized on an individual basis and measured on a group basis. An example is where financial instruments might be recognized individually but measured as a portfolio. Where different units of account are applied for recognition and measurement the reason(s) will be explained in the Basis for Conclusions of the individual standards.

Binding Arrangements that are Equally Unperformed

BC5.36F The 2014 IPSASB Conceptual Framework does not include guidance on executory contracts. In the Limited Scope Update, the IPSASB evaluated whether guidance should be added to the Conceptual Framework.

BC5.36G The 2018 IASB Conceptual Framework describes an executory contract as "a contract or a portion of a contract, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent".

BC5.36H The IPSASB noted that the term "contract" has been problematic in some jurisdictions. This is because some public sector entities may not have powers to enter into contracts, although they may be able to enter into other binding arrangements. Consequently, the term "contract" has not been used widely in the Conceptual Framework. At the standards level the term "binding arrangement" has been generally used. The IPSASB has used this term in the Conceptual Framework. The IPSASB concluded that the principles of accounting for binding arrangements that are equally unperformed could be incorporated in the section on Unit of Account and that a separate section was unnecessary.

BC5.36I Most respondents to ED 81 supported the inclusion of guidance on accounting for binding arrangements that are equally unperformed. However, a number disagreed with the location of this guidance in the section of Unit of Account. They considered that the implications of the guidance extended beyond considerations related to unit of account to include areas such as the definition of an asset and a liability. They encouraged the IPSASB to relocate the guidance to a separate sub-section. The IPSASB accepted the views of these respondents and decided to relocate the guidance to a separate sub-section in paragraphs 5.26I and 5.26J.

Net Financial Position, Other Resources and Other Obligations

BC5.37 This section of the Basis for Conclusions outlines the IPSASB's approach to models of financial performance to be reported in the financial statements, and specifically the treatment of deferred inflows and deferred outflows.

Consultation Paper, Elements and Recognition in Financial Statements

BC5.38 The 2010 Consultation Paper discussed two contrasting approaches to financial performance:

- An approach that measures financial performance as the net result of all changes in the entity's resources and obligations during the period. This was described as the asset and liability-led approach; and
- An approach that measures financial performance as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period. This was described as the revenue and expense-led approach.

BC5.39 The 2010 Consultation Paper noted that the two different approaches could lead to different definitions of the elements related to financial performance and financial position. The revenue and expense-led approach is strongly linked to the notion of inter-period equity. Inter-period equity refers to the extent to which the cost of programs and providing services in the reporting period is borne by current taxpayers and current resource

providers. The asset and liability-led approach is linked to the notion of changes in resources available to provide services in the future and claims on these resources as a result of period activity.

BC5.40 A further section of the 2010 Consultation Paper discussed Other Potential Elements and pointed out that, if IPSASB adopted the revenue and expense-led approach, IPSASB would need to address deferred flows. Under this approach, deferred flows are items that do not meet the proposed definitions of revenue and expense, but which are nevertheless considered to affect the financial performance of the period. The Consultation Paper identified three options for dealing with such flows:

- Defining deferred inflows and deferred outflow as elements on the statement of financial position;
- Broadening the asset and liability definitions to include items that are deferrals; or
- Describing deferred flows as sub-classifications of net assets/net liabilities (subsequently referred to as the residual amount).

BC5.41 The 2010 Consultation Paper had two specific matters for comment on these areas. The first asked constituents to indicate whether they preferred the asset and liability-led approach or revenue and expense-led approach and to indicate their reasons. The second asked whether deferred inflows and deferred outflows need to be identified on the statement of financial position. If respondents supported identification on the statement of financial position they were asked to indicate which of the three approaches in paragraph BC5.40 they supported.

BC5.42 The responses to these specific matters for comment were inconclusive. A small majority of respondents expressing a view favored the asset and liability-led approach. However, a number of respondents who supported the asset and liability-led approach also indicated that they favored identifying deferrals on the statement of financial position. The IPSASB took these views into account in the development of the 2012 Exposure Draft.

Exposure Draft, Elements and Recognition in Financial Statements

BC5.43 The 2012 Exposure Draft expressed a view that it is important to be able to distinguish flows that relate to the current reporting period from those that relate to specified future reporting periods. The 2012 Exposure Draft therefore proposed the following definitions of a deferred inflow and a deferred outflow:

- *A deferred inflow is an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period that results from a non-exchange transaction and increases net assets; and*
- *A deferred outflow is an outflow of service potential or economic benefits provided to another entity or party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.*

BC5.44 The two key features of these definitions were:

- The proposed elements were restricted to non-exchange transactions; and
- The flows had to be related to a specified future period.

BC5.45 The IPSASB's rationale for including these characteristics were as risk-avoidance measures to reduce the possibility of deferred inflows and deferred outflows being used widely as smoothing devices, and to ensure that deferred inflows and deferred outflows are not presented on the statement of financial position indefinitely. The Exposure Draft included two Alternative Views. The first Alternative View considered the meaning of net financial position to be unclear in light of the combined impact of deferred inflows and deferred outflows. The second Alternative View disagreed with the view that deferred inflows and deferred outflows

should be identified and recognized as separate elements and expressed a view that these flows meet the definitions of revenue and expense.

BC5.46 Many respondents disagreed with defining deferred inflows and deferred outflows as elements. Some expressed reservations about the implications for alignment with the IASB's Conceptual Framework, and IFRS Accounting Standards more generally. A number of respondents considered that the proposed approach did not reflect economic reality and that it would be more difficult to determine an objective basis for deferring revenue and expense under the revenue and expense-led approach. Nevertheless, a number of respondents also expressed the view that information on flows relating to particular reporting periods has information value.

BC5.47 The rationale for restricting the definitions to non-exchange transactions was challenged as conceptually weak both by respondents who favored defining deferred inflows and deferred outflows as elements and those opposed to these proposed elements. Respondents also disagreed with the restriction to specified time periods, because it would potentially lead to the different accounting treatment of very similar transactions dependent upon whether a specific period was identified—a grant without conditions receivable by an entity to finance its general activities for a five year period would have met the definition of a deferred inflow, whereas a similar grant for a future unspecified period would have met the definition of revenue.

Finalizing the Elements Chapter

BC5.48 The IPSASB considered that it needed to balance the limited support for the proposals on deferred flows in the 2012 Exposure Draft, and the perceived needs of users for information about flows relating to particular reporting periods.

BC5.49 The IPSASB therefore considered five options (A–E below) in responding to input from the due process and its perception of users' information needs:

A. Defining deferred inflows and deferred outflows as elements in a more principles-based manner and not specifying the financial statements in which the elements are to be recognized. As such, the Conceptual Framework would not predetermine the presentation of the elements;

B. Deriving the definitions of revenue and expense from the asset and liability definitions;

C. Broadening the asset and liability definitions;

D. Accepting that certain economic phenomena that do not meet the definition of any element may need to be recognized in financial statements in order to meet the objectives of financial reporting; and

E. Reporting inflows and outflows that provide service potential or economic benefits, but do not affect assets and liabilities as defined in the Conceptual Framework and reporting inflows and outflows that do not affect revenue and expense.

BC5.50 The IPSASB did not consider that defining deferred inflows and deferred outflows as elements in Option A is justified in light of the objections that respondents had made to the proposals in the 2012 Exposure Draft. The IPSASB therefore rejected Option A.

BC5.51 The IPSASB considered two variants of Option B. In the first variant deferred flows would be taken directly to surplus/deficit, while in the second variant deferred flows would initially be taken to residual amount and then recycled to surplus/deficit in the period that time stipulations occur.

BC5.52 The IPSASB considers that taking deferred flows directly to surplus/deficit under the first variant of Option B may not produce information that is representationally faithful of an entity's sustainable performance and therefore does not meet the objectives of financial reporting. The second variant of Option B relies on recycling and, in the view of some IPSASB members would have implicitly introduced the notion of "other

comprehensive income" into the Conceptual Framework. The IPSASB has strong reservations about such a development. For these reasons the IPSASB rejected Option B.

BC5.53 The IPSASB noted that Option C would require changes to the definitions of an asset and a liability so that:

- The definition of an asset would include resources that an entity does not control; and
- The definition of a liability would include obligations that are not present obligations.

The IPSASB considers that such changes would distort the essential characteristic of an asset—that an entity controls rights to resources—and the essential characteristic of a liability—that an entity has a present obligation for an outflow of resources. In the view of the IPSASB this would make assets and liabilities less easily understandable. Adoption of such an option would also be a departure from globally understood definitions of an asset and a liability. For these reasons the IPSASB rejected Option C.

BC5.54 Option E was a hybrid approach that involved components of the other four options. It would allow reporting of inflows and outflows that provide service potential or economic benefits, but would not affect the definitions of an asset and liability and the reporting of inflows and outflows that do not affect revenue and expense as defined in the Conceptual Framework. The idea of this approach was to acknowledge that further conceptual thinking on financial performance is necessary.

BC5.55 Option D is broader than Option E because it is not necessarily restricted to deferred flows, but could encompass broader economic phenomena—for example obligations that are not present obligations, because, although they contain performance obligations, it is not clear that they require an outflow of resources. Option D acknowledges that there may be circumstances under which the six elements defined in the Conceptual Framework may not provide all the information in the financial statements that is necessary to meet users' needs. In the view of the IPSASB it is transparent to acknowledge that other items may be recognized. Unlike Option A, Option D does not involve defining additional elements, and, unlike Option C, Option D does not involve modification of generally understood definitions of an asset and a liability.

BC5.56 The IPSASB concluded that Option D provides the most transparent approach. The overarching term "other economic phenomena" is used in the introductory section of this chapter to describe such items and the more detailed terms "other obligations" and "other resources" are used subsequently. Option D also enhances the accountability of the IPSASB because the circumstances under which other obligations and other resources will be recognized will be determined at standards level and explained in the Bases for Conclusions of specific standards.

Financial Statements

BC5.57 Net financial position is the aggregate of an entity's net assets (assets minus liabilities) and other resources and other obligations recognized in the statement of financial position at the reporting date. Where resources and obligations other than those that meet the definition of the elements are recognized in the financial statements, the amounts reported as net assets and net financial position will differ. In these circumstances, the interpretation of net financial position will be determined by reference to the nature of the other resources and other obligations recognized in the financial statements under the relevant IPSAS.

BC5.58 The IPSASB considered whether it should use both the terms "net assets" and "net financial position" in the Conceptual Framework. The IPSASB acknowledges a view that net assets is a generally understood term. However, the IPSASB considered that using both terms could be confusing and therefore decided to use the term "net financial position" to indicate the residual amount of an entity.

Revenue and Expense

Gross or Net Increase in "Net Financial Position" in Definition of Revenue

BC5.59 The IPSASB considered whether the definition of revenue should specify that the increase in net financial position is "gross" or "net". The IPSASB acknowledges that a gross approach might not be appropriate in areas such as the disposal of property, plant, and equipment where such an approach would require the full disposal proceeds to be recognized as revenue, rather than the difference between the disposal proceeds and the carrying amount. Conversely, a net approach might be similarly inappropriate in certain circumstances—for example, the sale of inventory. The IPSASB concluded that whether the increase in net financial position represented by revenue is presented gross or net should be determined at standards level, dependent on which treatment better meets the objectives of financial reporting.

Distinguishing Ordinary Activities from Activities outside the Ordinary Course of Operations

BC5.60 Some standard setters structure their definitions of elements so that, for example, inflows and outflows arising from transactions and events relating to activities in the ordinary course of operations are distinguished from inflows and outflows that relate to activities outside the ordinary course of operations. An example of this approach is to define revenue and expense as elements that relate to an entity's "ongoing major or central operations", and to define gains and losses as elements that relate to all other transactions, events and circumstances giving rise to increases or decreases in net assets[10].

BC5.61 The IPSASB acknowledges that distinguishing transactions and events related to the ordinary course of operations from transactions and events outside the ordinary course of operations can provide useful information for users of the financial statements. Therefore, it may be useful to adopt the terms "gains and losses" to reflect inflows and outflows from transactions and events outside the ordinary course of operations. However, the IPSASB is of the view that, conceptually, gains and losses do not differ from other forms of revenue and expense, because they both involve net increases or decreases of assets and/or liabilities. The IPSASB also noted that many respondents to the 2010 Consultation Paper and 2012 Exposure Draft shared this view. Therefore, the IPSASB decided not to define gains and losses as separate elements.

Ownership Interests in the Public Sector

BC5.62 As discussed in more detail in BC5.66-BC5.68, the IPSASB considered whether, and, if so, under what circumstances, ownership interests exist in the public sector and whether transactions related to ownership interests should be excluded from the definitions of revenue and expense. Because transactions with owners, in their role as owners, are different in substance to other inflows and outflows of resources the IPSASB concluded that it is necessary to distinguish flows relating to owners from revenue and expense. Therefore, ownership contributions and ownership distributions are defined as elements and excluded from the definitions of revenue and expense.

Surplus or Deficit in the Reporting Period

BC5.63 This chapter states that the difference between revenue and expense is the entity's surplus or deficit for the period. The IPSASB considered whether it should provide explanatory guidance on the interpretation of surplus or deficit. The IPSASB discussed a view that public sector entities have operating and funding models. According to this view a surplus provides an indicator of the ability of the entity to:

- Reduce demands for resources from resource providers;
- Increase either the volume and/or quality of services to recipients;
- Reduce debt (where an entity has debt-raising powers); or
- A combination of these factors.

[10] See, for example, Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*.

BC5.64 Conversely a deficit provides an indicator of:

- The need to increase demands on resources from resource providers;
- Reduce either the volume and/or quality of services to recipients;
- Increase debt (where an entity has debt-raising powers); or
- A combination of these factors.

BC5.65 The IPSASB acknowledges that there is a need for greater clarity on the meaning of surplus or deficit in the public sector, and therefore that aspects of the above approach might be developed further in the future. However, the IPSASB considered the concept of an operating and funding model or business model is not well developed in the public sector, and that developing an operating and funding model appropriate for all public sector entities is problematic. Therefore, the IPSASB decided not to include guidance on the interpretation of surplus or deficit in the Conceptual Framework.

Ownership Contributions, and Ownership Distributions

BC5.66 The IPSASB considered whether net financial position is a residual amount, a residual interest or an ownership interest. The IPSASB acknowledges the view that the interest of resource providers and service recipients in the long-term efficiency of the entity, its capacity to deliver services in the future and in the resources that may be available for redirection, restructuring or alternative disposition is similar to an ownership interest. The IPSASB also accepts that the terms “residual interest” and “ownership interest” have been used in some jurisdictions to characterize third parties’ interests in net assets. The term “residual interest” indicates that service recipients and resource providers have an interest in the capability of the entity to finance itself and to resource future operations. The term “ownership interest” is analogous to the ownership interest in a private sector entity and, for some, indicates that the citizens own the resources of the public sector entity and that government is responsible to the citizens for the use of those resources. Some supporters of this approach argue that it emphasizes the democratic accountability of governments.

BC5.67 The IPSASB is of the view that the term “residual interest” may also suggest that service recipients and resource providers have a financial interest in the public sector entity. Similarly the term “ownership interest” may suggest that citizens are entitled to distributions from the public sector entity and to distributions of resources in the event of the entity being wound up. The IPSASB therefore concluded that the terms “residual interest” and “ownership interest” can be misunderstood or misinterpreted, and that net financial position is a residual amount that should not be defined.

BC5.68 However, the IPSASB acknowledges that part of net financial position can in certain circumstances be an ownership interest. Such instances may be evidenced by the entity having a formal equity structure. However, there may be instances where an entity is established without a formal equity structure, with a view to sale for operation as a commercial enterprise or by a private sector not-for-profit entity. An ownership interest can also arise from the restructuring of government or public sector entities, such as when a new government department is created. The IPSASB therefore considered whether ownership interests should be defined as an element. The IPSASB acknowledges the view that identifying the resources (or claims on future resources) attributable to owners provides information useful for accountability and decision-making purposes. The IPSASB concluded that such interests can be identified through the sub-classification of net financial position. However, the IPSASB also concluded that it is important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expense, other resources and other obligations. Therefore, ownership contributions and ownership distributions are defined as elements. Detailed guidance to support the assessment of whether certain inflows and outflows of resources satisfy the definitions of ownership contributions and ownership distributions will be developed at standards level, as appropriate.

CHAPTER 6: RECOGNITION IN FINANCIAL STATEMENTS

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Recognition Criteria and their Relationship to Disclosure

6.1 This chapter identifies the criteria that must be satisfied in order for an element to be recognized in the financial statements. Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFRs.

6.2 The recognition criteria are that:

- An item satisfies the definition of an element; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

6.3 All items that satisfy the recognition criteria are recognized in the financial statements. In some circumstances, an IPSAS may also specify that, to achieve the objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognized in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints. Other resources and other obligations are discussed in Chapter 5, *Elements in Financial Statements*.

6.4 Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The conditions that give rise to uncertainty, if any, can change. Therefore, it is important that uncertainty is assessed at each reporting date.

Definition of an Element

6.5 In order to be recognized as an element an item must meet the definition of one of the elements in Chapter 5. Uncertainty about the existence of an element is addressed by considering the available evidence in order to make a neutral judgment about whether an item satisfies all essential characteristics of the definition of that element, taking into account all available facts and circumstances at the reporting date.

6.6 If it is determined that an element exists, uncertainty about the amount of service potential or ability to generate economic benefits represented by that element is taken into account in the measurement of that element (see paragraphs 6.7 and 6.8). Preparers review and assess all available evidence in determining whether an element exists and is recognized, whether that element continues to qualify for recognition (see paragraph 6.9), or whether there has been a change to an existing element.

Measurement Uncertainty

6.7 In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements. The selection of an appropriate measurement basis is considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*.

6.8 There may be uncertainty associated with the measurement of many amounts presented in the financial statements. The use of estimates is an essential part of the accrual basis of accounting. A decision about the relevance and faithful representativeness of measurement involves the consideration of techniques, such as using ranges of outcomes and point estimates, and whether additional evidence is available about economic circumstances that existed at the reporting date. Disclosures can provide useful information on estimation techniques employed. There may be rare instances in which the level of uncertainty in a single point estimate is so large that the relevance and faithful representativeness of the measure is questionable even if

disclosures are provided to explain estimation techniques. Under these circumstances the item is not recognized.

Disclosure and Recognition

6.9 The failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail. However, disclosure can provide information about items that meet many, but not all the characteristics of the definition of an element. Disclosure can also provide information on items that meet the definition of an element but cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting. Disclosure is appropriate when knowledge of the item is considered to be relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting.

Derecognition

6.10 Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognized from the financial statements, and removing the item if such changes have occurred. In evaluating uncertainty about the existence of an element the same criteria are used for derecognition as at initial recognition.

Basis for Conclusions

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

Recognition and its Relationship to the Definition of the Elements

BC6.1 The IPSASB considered whether recognition criteria should be integrated in definitions of the elements. The IPSASB acknowledges the view that the inclusion of recognition criteria in definitions of the elements enables preparers to consider all the factors that must be taken into account in evaluating whether an item of information is recognized as an element in the financial statements. However, the IPSASB is of the view that while there is overlap in factors to be considered in determining whether an item satisfies the definition of an element and whether that element qualifies for recognition, recognition should be considered as a distinct stage in the financial reporting process. This is because recognition is broader than whether the definition of an element is satisfied. The IPSASB also noted that few respondents to the Consultation Paper and Exposure Draft supported the integration of recognition criteria in element definitions. After considering the input from the due process, the IPSASB concluded that the definitions of elements should not include recognition criteria.

BC6.2 In determining whether an element should be recognized there are two types of uncertainty that need to be considered. The first is uncertainty about whether the definition of an element has been satisfied. The second is measurement uncertainty—whether the element can be measured in a manner that achieves the qualitative characteristics. Measurement uncertainty is considered if it is determined that the definition of an element has been met. While recognition is viewed as a distinct stage in the accounting process, matters relevant to an assessment of uncertainty over the existence of an element will have been considered in determining whether the item satisfies the definition of an element.

Satisfying the Definition of an Element

BC6.3 The IPSASB considered whether, in dealing with uncertainty over the existence of an element, standardized probability threshold criteria should be adopted, or whether all available evidence should be used to make neutral judgements about an element’s existence.

BC6.4 Standardized evidence thresholds filter out items that have a low probability of resulting in an inflow or outflow of service potential or the ability to generate economic benefits. Such items may have high monetary values, even though the probability of existence may be low. Some consider that it is more appropriate to disclose such items rather than to recognize them. Threshold criteria are also justified on cost grounds, because only after a preparer has formed an initial judgement about whether those threshold criteria have been met does that preparer consider how that element should be measured.

BC6.5 The IPSASB formed a view that the adoption of thresholds for recognition purposes risks omitting information that is relevant and faithfully representative, because similar information items may be treated in different ways dependent upon relatively small differences in the probability of a flow of benefits. The IPSASB acknowledges that such risks can also exist for approaches which do not specify thresholds for recognition. This is because preparers will make their own assessments of the circumstances or "the threshold" that justifies recognition, and those assessments can change for different items and over time. However, the IPSASB concluded that, on balance, an approach that is based on an assessment of all available evidence in determining whether an element exists and takes account of uncertainty about the flows of service potential or the ability to generate economic benefits in measurement is a more appropriate response to the uncertainty faced by preparers of financial statements. It is more likely to result in the recognition of information that satisfies the qualitative characteristics than the establishment of an arbitrary threshold that must be adhered to. Guidance may be provided at standards level on dealing with circumstances in which there is significant

uncertainty about whether an element exists in particular circumstances, and therefore whether it would satisfy the criteria for recognition.

BC6.6 The IPSASB explored whether uncertainty about the existence of an element is specific to certain characteristics of assets and liabilities—in particular for assets whether an entity controls rights to a resource and for liabilities whether an entity has little or no realistic alternative to avoid an outflow of service potential or economic benefits. The rationale for such a view is that these are the essential characteristics of an asset and a liability where uncertainty is likely to arise.

BC6.7 The IPSASB is of the view that, uncertainty relates to more than just these characteristics. There might also be uncertainty about the existence of a present obligation and a past event for liabilities and, for assets whether a resource that generates future economic benefits or service potential presently exists, rather than a future resource or future right to a resource. As noted in paragraph BC6.2, these matters will also have been considered in determining whether an item satisfies the definition of an element.

Derecognition

BC6.8 The IPSASB considered whether the same criteria should be used for initial recognition and derecognition. Many of the respondents to the Consultation Paper and the Exposure Draft supported the use of the same criteria for derecognition as for initial recognition. The IPSASB concluded that adopting different recognition criteria would conflict with the qualitative characteristic of consistency as it would result in the recognition of items with different standards of evidence for their existence. Therefore, the same recognition criteria should be used for initial recognition and derecognition.

CHAPTER 7: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

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Introduction

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

The Objective of Measurement

7.2 The objective of measurement is:

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

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

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

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

Initial Measurement

7.5 Initial measurement for an asset is at transaction price plus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration given to acquire, construct or develop an asset. Transaction costs for assets are incremental costs that are directly attributable to the acquisition, construction, or development, of an asset and would not have been incurred if the entity had not acquired, constructed, or developed the asset. Transaction price plus transaction costs is the historical cost for an asset.

7.6 Initial measurement for a liability is at transaction price minus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration received to assume an obligation. Transaction costs for liabilities are incremental costs that are directly attributable to the incurrence of a liability and would not have been incurred if the entity had not incurred the liability. Transaction price minus transaction costs is the historical cost for a liability.

7.7 For both assets and liabilities, where there are no transaction price data available or if the transaction price does not faithfully present relevant information about the asset and liability of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes, a deemed cost is used.

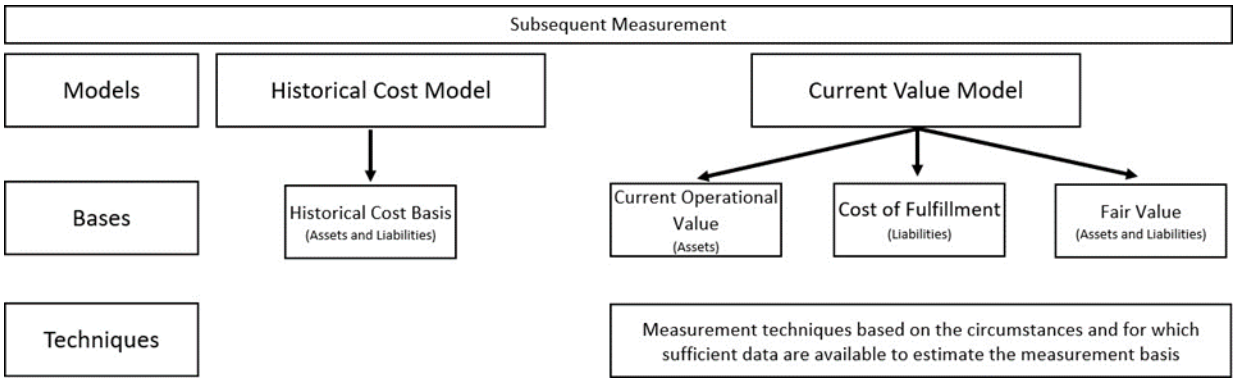
Subsequent Measurement

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

- Measurement models;
- Measurement bases; and

- Measurement techniques.

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



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

7.10 Under the historical cost model, assets and liabilities are measured at historically based amounts. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous[11] for liabilities.

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

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

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

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

The Selection of Measurement Models and Measurement Bases

7.15 It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a conceptual level for all circumstances. Therefore, the Conceptual Framework does not propose a single measurement model or measurement basis (or combination of bases) for all transactions, events, and conditions. It provides guidance on the selection of a measurement model and a measurement basis for assets and liabilities from those bases most commonly used in order to meet the measurement objective. It may be necessary to select measurement bases from different measurement models in order to meet the measurement objective.

7.16 The following measurement bases for assets are identified and discussed in terms of the information they provide about (a) the cost of services delivered by an entity, (b) the operational capacity and the financial capacity of an entity; and (c) the extent to which they provide information that meets the qualitative characteristics while taking into account the constraints on information in financial reports:

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

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

7.17 Value in use is used solely for the impairment of cash-generating assets, and therefore is discussed separately in paragraphs 7.57–7.62.

7.18 The following measurement bases for liabilities are identified and discussed:

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

7.19 The next two sub-sections discuss classifying measurement bases as entity or non-entity specific and entry-based or exit-based.

Entity-Specific and Non-Entity-Specific Measures

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

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

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

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

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

Entry and Exit Values

7.21 Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. Current operational value and historical cost are entity specific measures for assets and are entry values. Fair value is a market-based, non-entity specific measure, and is an exit value.

7.22 For liabilities, entry values relate to the transaction or event under which an obligation is incurred. Exit values reflect the amount required to fulfill or transfer an obligation. For example, historical cost is an entity specific measure for liabilities and is an entry value, Cost of fulfillment is an entity specific measure and fair value is a market- based, non-entity specific measure; both measures are exit values.

7.23 Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases normally include transaction costs on the acquisition, construction, or development of an asset and on the incurrence of a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or fulfillment or transfer of a liability.

Level of Aggregation or Disaggregation for Measurement

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

- Guidance on unit of account in Chapter 5;
- The materiality of aggregation or disaggregation; and
- The costs of aggregation or disaggregation compared with the benefits in terms of the extent to which the aggregation or disaggregation meets the objectives of financial reporting.

Measurement Bases for Assets

7.25 This section discusses the following measurement bases for assets:

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

Historical Cost

7.26 Historical cost for an asset is:

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

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

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

Cost of Services

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

Operational Capacity

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

Financial Capacity

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

Application of the Qualitative Characteristics

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

7.33 Historical cost information is comparable to the extent that assets have the same or similar acquisition, construction, or development dates. Historical cost does not reflect the impact of price changes, so it is not

possible to compare meaningfully the amounts of assets that were acquired, constructed, or developed at different times when prices differed.

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

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

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

Measurement Bases for Assets under the Current Value Model

7.35 Measurements under the current value model reflect the economic environment prevailing at the reporting date. Depreciation, amortization, and impairment, which are discussed in the context of the historical cost measurement model in paragraphs 7.27 and 7.28, are also relevant to current value measurement bases in certain circumstances. Additions and enhancements may affect measurements under current operational value and fair value.

7.36 Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity and selects the current operational value measurement basis, or the fair value measurement basis based on that analysis. In making such a judgment an entity has regard to the appropriate unit of account. Guidance on unit of account is provided in Chapter 5.

Current Operational Value

7.37 Current operational value is:

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

7.38 Current operational value presents an entity-specific measurement of an existing asset held for its operational capacity. Current operational value reflects:

- The amount the entity would pay for the remaining service potential of the asset in the least costly manner.
- The remaining service potential of the asset taking into account the current condition of the asset.
- The asset's existing use and location.

7.39 An asset supports an entity delivering services in its existing use. 'Existing use' is the way an existing asset is used, rather than an alternative use, and generally reflects the policy objectives of the entity operating the asset. Current operational value therefore assumes that an asset will continue to be used for service delivery rather than being sold.

Cost of Services

7.40 The cost of services is reported in current terms when based on current operational value. Thus, the amount of assets consumed is related to the value of the assets at the time they are consumed- and not, as with historical cost, at the time they were acquired, constructed, or developed. This provides a basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period-

which are generally transactions of the current period and measured in current prices-and for assessing whether resources have been used economically and efficiently. It may also provide a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition, construction, or development dates, and for assessing the cost of providing services in the future and future resource needs. This is because future costs are more likely to resemble current costs than those incurred in the past when prices were different.

Operational Capacity

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

Financial Capacity

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

Application of the Qualitative Characteristics

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

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

Fair Value

7.45 Fair value for an asset is:

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

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

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

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

Orderly Markets

7.49 Orderly markets have the following characteristics:

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

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

Fair Value where Markets Cannot be Assumed to be Orderly

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

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

Cost of Services

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

Operational Capacity

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

Financial Capacity

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

Application of the Qualitative Characteristics

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

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

Value in Use

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

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

7.59 [Deleted]

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

7.61 [Deleted]

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

Measurement Bases for Liabilities

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

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

Historical Cost

7.64 Historical cost for a liability is:

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

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

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

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

Cost of Fulfillment

7.68 Cost of fulfillment is:

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

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

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

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

7.72 Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date.

7.73 Cost of fulfillment is generally relevant for measuring liabilities except in circumstances where the entity can obtain release from an obligation at an amount lower than the cost of fulfillment.

Fair Value

7.74 Fair value for a liability is:

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

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

Basis for Conclusions

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

Background to the Development of the Conceptual Framework and its Updating

BC7.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (The Conceptual Framework) was approved in September 2014. The development of the Conceptual Framework included a number of consultation papers and exposure drafts. On approval the IPSASB did not commit to a review of the Conceptual Framework within a specified timeframe. Although views were expressed that the Conceptual Framework should be a "living document" subject to regular updates, there was a broader view that it should be allowed to "bed down" for a significant period. Over-frequent amendments to the Conceptual Framework could also undermine the accountability that it imposes on the IPSASB in explaining approaches developed at the standards level.

BC7.2 In 2018, after having applied the 2014 Conceptual Framework in standards development for over three years, the IPSASB considered that a limited review of certain aspects of the Conceptual Framework would be appropriate. The IPSASB's project on Measurement was a principal factor. In addition, the International Accounting Standards Board (IASB) was about to issue its finalized Conceptual Framework with post-2014 developments on measurement of potential relevance to the public sector. The IPSASB therefore proposed a Limited-scope Update project in the consultation on its Strategy and Work Plan in 2018. The proposed project received significant support from respondents for the reasons outlined by the IPSASB. The IPSASB initiated the project in March 2020. Exposure Draft (ED) 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, was issued in April 2021. The IPSASB considered the points raised by respondents to the exposure draft in finalizing the revised Chapter 7. The revised Chapter 7 became applicable when approved.

BC7.3 The IPSASB decided that the initial focus of the 2014 Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* in 2010 (the 2010 Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it. The Limited-scope Update project initiated in 2020 did not reopen this issue and continued to focus on the financial statements.

The Objective of Measurement

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

BC7.5 Consistent with this approach the 2013 Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements-in particular, it would allow the amounts of different assets and liabilities to be aggregated to provide meaningful totals. However, the IPSASB is of the view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics.

BC7.6 The 2013 Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:

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

BC7.7 Many respondents, while generally in favor of the approach in the 2013 Exposure Draft, supported the Alternative View. The IPSASB also acknowledged the view that the Conceptual Framework's approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement model or measurement basis underpinned by an ideal concept of capital[12]. The IPSASB accepts that a concept of capital related to operating capability is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.25–BC7.27, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.

BC7.8 Subsequently, the IPSASB was persuaded by the views of those who argued that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the IPSASB noted that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to operational capacity and financial capacity. The IPSASB concluded that linking a measurement objective to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of the measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard setting in the public sector.

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

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

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

- Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and

[12] Such concepts of capital include invested money capital, current cash equivalents and physical capital.

- Requiring transparent presentation and disclosure to ensure that the measurement bases used, and the amounts reported on each basis are clear.

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

Initial Measurement

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

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

The Subsequent Measurement Framework

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

(a) Measures or Categories of Measurement Bases (the latter term is used in the IASB's Basis for Conclusions);

(b) Measurement Bases; and

(c) Measurement Techniques.

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

(a) **Measurement Models:** broad approaches for measuring assets and liabilities for inclusion in the financial statements.

(b) **Measurement Bases:** specific ways of measuring assets and liabilities that provide the information that best meets the qualitative characteristics under the selected measurement model.

(c) **Measurement Techniques:** methods to estimate the amount at which an asset or liability is measured under the selected measurement basis.

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

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

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

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

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

BC7.20 The IPSASB decided that the characteristic of observability in a market is relevant to the selection of a measurement technique once a measurement basis has been selected, rather than directly to the measurement basis itself. Consistent with the conclusion in paragraph BC7.18 that detailed guidance on measurement techniques is more appropriately addressed at the standards level, the IPSASB decided not to retain a discussion of observability in a market in the Conceptual Framework, but to refer to the "availability of observable data" as an example of a factor in the selection of a measurement technique.

BC7.21 For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. For liabilities, entry values usually reflect the amount at which a liability is incurred and exit values reflect the amount required to fulfill or transfer a liability. In rarer cases, entry values reflect the amount at which a liability is assumed and exit values reflect the amount to release an entity from an obligation.

BC7.22 IPSASB is of the view that the key factor in the selection of a current value measurement basis is the measurement objective; in particular, whether an asset is primarily held for its operational or financial capacity and the characteristics of a liability. The IPSASB concluded that the distinction between entry and exit values is useful in deciding whether a measure includes transaction costs, and, if so, whether on the acquisition or sale of an asset or incurrence or settlement of a liability. The Conceptual Framework therefore includes a high-level discussion on entry and exit values but does not provide a tabular classification of specific measurement bases as entry or exit.

Approach to Identifying Measurement Bases Addressed in the Conceptual Framework

BC7.23 In revising Chapter 7 the IPSASB identified two approaches to the identification of, and guidance on, measurement bases. The first approach would provide guidance on a large number of measurement bases regardless of whether they are used in current standards-level literature or whether it is likely that that they will be used in the development of future standards. The second approach would focus on the most commonly used measurement bases.

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

Measurement Bases for Assets

Historical Cost

BC7.25 Historical cost is a measurement basis applied in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft that preceded the 2014 version of the Conceptual Framework advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost information. They also noted that, because historical cost is widely adopted in combination with other measurement bases, its continued use avoids the implementation costs that would arise if a future revision of a current standard that requires or permits historical cost were to require the use of a different measurement basis.

BC7.26 Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.

BC7.27 The IPSASB agreed that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity and accepted that users are interested in the cost of services based on actual transactions. Historical cost provides information on how much services actually cost in the reporting period, rather than how much they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.

BC7.28 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results with the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that, where this is the case, historical cost enhances comparison against budget.

BC7.29 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both accountability and decision-making purposes. As historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.

BC7.30 In finalizing the revised Chapter 7 the IPSASB reviewed the wording of the definition of historical cost. The IPSASB decided that the definition could be simplified and clarified by:

(a) Adding "construct" to "acquire and develop" and "construction" to "acquisition and development", as construction is a way of creating an asset;

(b) Removing the phrase "which is the cash or cash equivalents, or other consideration given" because it is unnecessary; and

(c) Including "transaction costs" as a component of the definition and providing a description of "transaction costs". This is because the IPSASB was persuaded by the argument that, for many transactions, transaction costs are a significant component of the amount of initial measurement.

Current Operational Value

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

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

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

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

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

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

BC7.35 The AV proposed the following definition:

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

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

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

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

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

Fair Value

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

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

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

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

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

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

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

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

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

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

Market Value

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

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

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

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

Replacement Cost

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

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

BC7.50 In light of the decision to include current operational value as the most appropriate current value measurement basis for operational assets, the IPSASB considered whether it was necessary to retain replacement cost as a measurement basis. The IPSASB considered that the rationale for including replacement cost as a measurement basis in the 2014 Conceptual Framework was convincing, in particular that an appropriate measurement basis for specialized assets should provide information on the cost of the service potential that is attributable to the asset. As noted above, current operational value is a measurement basis that can be applied to both specialized and non-specialized assets. Measurement techniques can be selected appropriate to the nature of the asset.

BC7.51 Most respondents to ED 76 supported the non-retention of replacement cost. Those who opposed or expressed reservations about the change considered that it had been insufficiently explained or that current operational value had not been adequately developed in ED 76. Both of these reservations were addressed in the finalized Chapter 7.

BC7.52 The IPSASB acknowledged these points, which were taken into account in the development and finalization of current operational value (see paragraphs BC7.31–BC 7.38). There was also a view that fair value is appropriate for non-operational assets. As noted in paragraph BC7.40 the IPSASB confirmed its view that fair value is inappropriate for assets primarily held for their operational capacity and that there should be a public sector specific current value measurement basis for such assets.

BC7.53 Some of the respondents who supported the approach proposed in ED 76, explicitly acknowledged the IPSASB's view that replacement cost would duplicate the new measurement basis and its retention would be confusing. At the standards level, the cost approach, which reflects aspects of replacement cost, is also being brought into both current operational value and fair value as a measurement technique at the standards level. The IPSASB therefore confirmed its view that replacement cost should not be included in the updated Chapter 7.

Net Selling Price

BC7.54 Net selling price is an entity-specific measurement basis that was defined in the 2014 Conceptual Framework as:

The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

BC7.55 In its project on non-current assets and discontinued operations, the IPSASB considered whether net selling price should be included as an alternative measure to fair value less costs to sell in determining the recoverable amount of assets held for sale where a sale is on negotiated rather than market terms. The IPSASB rejected inclusion of net selling price, largely on accountability grounds, concluding that fair value is more appropriate for the determination of the recoverable amount of an asset, as it generally meets the qualitative characteristics of financial reporting better than net selling price.

BC7.56 The IPSASB considered the case for an entity-specific, current value measurement basis for assets, as an alternative to fair value where there is not an orderly market, such as a distressed or negotiated sale. In some jurisdictions events such as financial crises and pandemics have increased the likelihood of such sales. Sale prices will be affected by the impact of such events on general market conditions and therefore reflected in fair value measurements. Aside from general price effects, when sale price is estimated at below fair value it is important that the impact of such a decision on an entity's financial position and financial performance is made fully transparent by disclosing the extent of the losses likely to be made on sale. This can be achieved by showing the difference between an asset's fair value and the sale price. The IPSASB therefore concluded that, in light of the limited information provided by net selling price, its retention in the IPSASB Conceptual Framework was unnecessary.

BC7.57 Following comments from respondents to ED 76, the IPSASB further analyzed the case for and against retention of net selling price. The IPSASB noted that:

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

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

Value in Use

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

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

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

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

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

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

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

BC7.65 Most respondents to ED 76 supported the IPSASB's proposed revised approach. Respondents who opposed the IPSASB's proposal to reduce the number of measurement bases discussed in the Conceptual Framework (see paragraphs BC7.23 and BC7.24) advocated retention on the grounds that value in use should be available to the IPSASB and preparers of financial statements for transactions and events apart from impairment. No examples of such circumstances were provided.

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

BC7.67 The IPSASB concluded that, while its wider future application cannot be ruled out, value in use's relevance is likely to be limited to impairment. The IPSASB also concluded that the importance of value in use to impairment justifies the inclusion of guidance in the Conceptual Framework. The IPSASB therefore decided to retain the approach in ED 76.

BC7.68 Some respondents suggested that the IPSASB should clarify the differences between value in use and current operational value. The IPSASB noted that value in use is an exit value and therefore includes the proceeds of sale as a component of the measure. Current operational value is an entry value and therefore does not include the proceeds of sale. As the public sector entities for which the IPSASB develops standards hold most assets for service delivery this analysis reinforced the IPSASB's view that these assets are likely to be measured at current operational value.

Symbolic Values

BC7.69 In some jurisdictions, certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.

BC7.70 The IPSASB acknowledged that such an approach is intended to provide useful information. However, in the development of the 2014 Conceptual Framework, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity, or the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of

whether the item meets the definition of an asset and recognition criteria in Chapter 5, *Elements in Financial Statements,* and Chapter 6, *Recognition in Financial Statements*. The IPSASB did not further consider the issue of symbolic values in the Limited Scope Update project.

Equitable Value and Synergistic Value

BC7.71 The IPSASB considers that the development of conceptual and standards-level projects evaluates the requirements and guidance in International Valuation Standards (IVS) and Government Finance Statistics. In its Limited Scope Update project, the IPSASB evaluated two concepts in IVS as potential measurement bases in the Conceptual Framework-equitable value and synergistic value.

BC7.72 IVS defines equitable value as the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

BC7.73 IVS defines synergistic value as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

BC7.74 Equitable value has similarities to net selling price and synergistic value relates to unit of account. The IPSASB considered net selling price in the Limited Scope Update project and decided not to retain this measurement basis (see above paragraphs BC7.54–BC7.58). The IPSASB therefore concluded that including equitable value and synergistic value as specific measurement bases in the Conceptual Framework was unnecessary. The IPSASB did not further consider equitable value and synergistic value in the Limited Scope Update project.

Deprival Value Model

BC7.75 The 2011 Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, discussed the deprival value model as a rationale for selecting a current value measurement basis. Some respondents expressed reservations-in particular that the model would be costly and impose a disproportionate burden on preparers of financial statements to have to consider a number of possible measurement bases for each asset that is reported. A number of respondents also considered that it is overly complex. A view was also expressed that the deprival value model unduly exaggerates the qualitative characteristic of relevance and neglects the other qualitative characteristics.

BC7.76 Although the IPSASB recognized that the deprival value model has been adopted successfully in some jurisdictions, the IPSASB acknowledged such reservations in whole or part. The IPSASB therefore included the deprival value model in the 2013 Conceptual Framework Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements*. That Exposure Draft proposed the deprival value model as an optional method of choosing between replacement cost, net selling price, and value in use where it had been decided to use a current measurement basis, but the appropriate basis could not be identified by reference to the objectives of financial reporting and the qualitative characteristics.

BC7.77 While a minority of respondents to the 2013 Conceptual Framework Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model's complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model-if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the deprival value model in the Conceptual Framework. The IPSASB did not further consider the deprival value model in the Limited-scope Update project.

Measurement Basis for Liabilities in the Updated Conceptual Framework

Fair Value

BC7.78 Paragraphs BC7.39 and BC7.40 discuss the inclusion of fair value for assets in the updated Conceptual Framework. Consistent with the analysis for assets the IPSASB decided that fair value is an appropriate measurement basis for many liabilities depending on their characteristics. The updated measurement chapter therefore includes fair value as a measurement basis for liabilities.

Cost of Fulfillment

BC7.79 The 2014 Conceptual Framework defined cost of fulfillment as:

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

BC7.80 In its 2018 Framework the IASB included fulfilment[13] value defined as:

The present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.

BC7.81 In light of this development, the IPSASB considered whether to (a) adopt the term 'fulfillment value' rather than cost of fulfillment while retaining the original definition of cost of fulfillment (b) adopt the term 'fulfillment value' and the definition in the IASB Framework; or (c) follow another approach.

BC7.82 A number of respondents to the IPSASB's 2019 Consultation Paper, Measurement, pointed out that fulfillment value reflects a risk premium, whereas cost of fulfillment is silent on risk premia. A risk premium, which is also known as a risk margin or risk adjustment, is the price for bearing the uncertainty inherent in the cash flows. The IPSASB concluded that using the term 'fulfillment value' with a definition different to that of the IASB was inappropriate. The IPSASB also decided that the inclusion of a risk premium should be determined at the standards level.

BC7.83 The IPSASB concluded that the existing definition of cost of fulfillment should be retained in ED 76. The IPSASB acknowledged that the term itself is similar to fulfillment value but concluded that provided it is clear that cost of fulfillment does not imply inclusion of a risk premium the term should be retained with its existing definition rather than adopting a new term such as 'cost of settlement'.

BC7.84 The IPSASB also considered whether the definition should retain the assumption that the obligations represented by the liability are fulfilled in the least costly manner. The IPSASB acknowledged that there may be circumstances where, for transparent public policy reasons, liabilities may not be fulfilled in the least costly manner. However, the IPSASB took the view that, from an accountability perspective, the assumption should be retained and concluded that the definition of cost of fulfillment should not be modified. It is possible that there may be cases where a reporting entity decides to fulfill an obligation in a manner that is not the least costly. In such circumstances it is important that for accountability purposes this is disclosed.

BC7.85 There was strong support for cost of fulfillment by respondents to ED 76. Consultation on ED 76 did not identify issues previously unconsidered by the IPSASB. The IPSASB therefore confirmed the retention of cost of fulfillment.

Measurement Bases for Liabilities not included in Updated Conceptual Framework

BC7.86 The following measurement bases and approaches for liabilities in the 2014 version of the Conceptual Framework have not been included in the updated version:

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

- Market value;
- Assumption price; and
- Cost of release.

Market Value

BC7.87 Market value for liabilities was defined in the 2014 version of the Conceptual Framework as:

The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

BC7.88 In light of the inclusion of fair value the IPSASB concluded that the retention of market value was unnecessary, as it would overlap with fair value and its inclusion would be confusing.

BC7.89 Following consultation on ED 76 the IPSASB confirmed that there was no case for retaining market value.

Assumption price

BC7.90 Assumption price was defined in the 2014 Conceptual Framework as:

The amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

BC7.91 Assumption price is an entity-specific measurement basis included in the 2014 Conceptual Framework. It has not been used in the IPSASB literature at the standards level as of 2021. It has some similarities to current cost for liabilities, as defined by the IASB in its 2018 Conceptual Framework, but refers to a liability of a counterparty, rather than a liability of the reporting entity.

BC7.92 The IPSASB assessed the case for retention of assumption price. The inclusion of assumption price (along with cost of release discussed in paragraphs BC7.96–BC7.100) was on the grounds that there may be limited circumstances where it might meet the measurement objective, for example in the case that a government takes on liabilities at concessionary rates.

BC7.93 The IPSASB concluded that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited, albeit potentially material. In such circumstances fair value could be used as the measurement basis. Therefore, the IPSASB concluded that there is not a strong case for retention of assumption price.

BC7.94 Following comments from respondents to ED 76 the IPSASB reconsidered the case for and against the retention of assumption price. The IPSASB noted that:

- Neither the IASB's 2010 Conceptual Framework nor the 2018 Conceptual Framework defined or described assumption price.
- In those limited cases where there is an "assumption price" it would be the same as historical cost. Following assessment of a day one gain or loss, it would then be superseded by cost of fulfillment in the year-end financial statements.

BC7.95 The IPSASB therefore confirmed that assumption price should not be retained in the Conceptual Framework.

Cost of Release

BC7.96 Cost of release was defined in the 2014 version of the Conceptual Framework as the amount of an immediate exit from an obligation-either the amount a creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Cost of release is entity-specific and does not assume an orderly market. At the standards level the measurement requirements and guidance in IPSAS 19, Provisions, *Contingent Liabilities and Contingent Assets,* include a grey letter reference to 'transfer(ing) an obligation at the reporting date' (IPSAS 19.45) which supplements the black letter reference to 'the best

estimate of the expenditure required to settle the present obligation at the reporting date' in IPSAS 19.44. This reference in IPSAS 19.45 is consistent with cost of release.

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

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

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

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

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

Current Cost

BC7.101 Paragraph BC7.32 discusses current cost as defined by the IASB for assets in its Conceptual Framework. Noting that in the IASB's Conceptual Framework the definition of current cost includes liabilities as well as assets, the IPSASB considered whether to include current cost as a measurement basis for liabilities. Current cost for liabilities is the consideration that would be received for incurring or taking on an equivalent liability at the measurement date. The IPSASB acknowledged that such a measurement basis might provide useful information for managerial purposes but considered that its practical application for financial reporting is limited, as cost of fulfillment better meets the qualitative characteristics of financial reporting The IPSASB therefore concluded that current cost for liabilities should not be included in the Conceptual Framework.

Own Credit Risk

BC7.102 The Conceptual Framework Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, sought the views of respondents on the treatment of an entity's own credit risk and changes in value attributable to changes in an entity's own credit risk.

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

CHAPTER 8: PRESENTATION IN GENERAL PURPOSE FINANCIAL REPORTS

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Introduction

8.1 This Chapter sets out the concepts applicable to the presentation of information in GPFRs, including financial statements of governments and other public sector entities (entities).

8.2 Presentation is linked to Chapters 1 to 4—the objectives of financial reporting, users' needs, the qualitative characteristics, constraints on information included in GPFRs and the reporting entity all influence presentation decisions. For information reported in the financial statements, presentation is also linked to the definitions of the elements, recognition criteria and measurement bases identified in Chapters 5 to 7-—for example:

- The definition of the elements affect the items that can be presented in the financial statements;
- Application of the recognition criteria affects the location of information; and
- The selection of measurement bases impacts the information presented on measurement methodologies.

Language in which Financial Statement and Other GPFRs are Issued

8.3 The language (or languages) in which financial statements and other GPFRs are issued supports achievement of the objectives of financial reporting and the qualitative characteristics. All translated versions need to be faithful to the original language version. The translated version is made available to meet the needs of users with reference to:

- Legal requirements in the entity's jurisdiction; and
- Translation costs and benefits.

Presentation

8.4 Presentation is the selection, location and organization of information that is reported in the GPFRs.

8.5 Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information about economic or other phenomena.

8.6 Chapter 1 explains that GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. In addition to the financial statements, GPFRs provide information relevant to, for example, assessments of an entity's service performance and the sustainability of its finances. The objectives of financial reporting, applied to the area covered by a particular report, guide presentation decisions for that report.

8.7 Presentation decisions may:

- Result in the development of a new GPFR, the movement of information between reports, or the amalgamation of existing reports; or
- Be detailed decisions on information selection, location and organization within a GPFR.

Presentation Decisions are Interlinked

8.8 Decisions on information selection, location and organization are interlinked and, in practice, are likely to be considered together. The amount or type of information selected could have implications on whether it is included in a separate report or organized into tables or separate schedules. The following three sections separately focus on each presentation decision.

Information Selection

8.9 Decisions on information selection address what information is reported:

- In the financial statements; and
- In GPFRs outside the financial statements (other GPFRs).

8.10 As Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, explains, the objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes. Chapter 2 describes the types of information that users need to meet the objectives of financial reporting. That description guides decisions on whether particular types of reports are needed. This Chapter focuses on the selection of information to be presented in GPFRs, including financial statements and other reports.

Information Selection—Nature of Information

Nature of Information in Financial Statements

8.11 Users' information needs identified in Chapter 2 underpin information selection for the financial statements. Those needs include information about the financial position, financial performance and cash flows of an entity in order to:

- Enable users to identify the resources of the entity and claims on those resources at the reporting date;
- Inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives; and
- Inform assessments of financial performance and the entity's liquidity and solvency.

8.12 The financial statements may also provide information that assists users in assessing the extent to which:

- An entity has met its financial objectives;
- Revenues, expenses, cash flows and financial results of the entity comply with approved budgets; and
- An entity has adhered to relevant legislation or other authority governing the raising and use of public monies.

8.13 The financial statements do not report comprehensively on an entity's service performance. However information in the financial statements may provide information relevant to the financial aspects of service performance such as information about:

- Revenue, expenses and cash flows related to services; and
- The assets and liabilities that inform users' evaluations of, for example, an entity's operational capacity or financial risks that could impact on service provision.

8.14 Other reports in GPFRs present information additional to the financial statements. Such information could, for example, include:

- Information on the sustainability of an entity's public finances;
- Financial statement discussion and analysis; or
- Service performance information.

Information Selected for Display or Disclosure

8.15 Information is selected for display or disclosure in GPFRs. Information selected for display communicates key messages in a GPFR, while information selected for disclosure makes displayed information more useful

by providing detail that will help users to understand the displayed information. Disclosure is not a substitute for display.

8.16 Repetition of information in a GPFR needs to generally be avoided. However, the same information may be both displayed and disclosed. For example, a total displayed on the face of the financial statements may be repeated in the notes, where the notes provide a disaggregation of the displayed total. Similarly the same information may be presented in different GPFRs in order to address their different aims.

Information Selected for Display

8.17 Every GPFR contains key messages that are communicated, so every GPFR contains displayed information. Displayed information is kept to a concise, understandable level, so that users can focus on the key messages presented and not be distracted by detail that could otherwise obscure those messages. Displayed information is presented prominently, using appropriate presentation techniques such as clear labeling, borders, tables and graphs.

8.18 The items displayed on the face of the financial statements provide information about such matters as the reporting entity's financial position, financial performance and cash flows.

8.19 Assessment of whether an item satisfies the recognition criteria is one of the key mechanisms in determining whether information is displayed on the face of the statement of financial position or statement of financial performance and/or disclosed either in the notes or elsewhere in the GPFRs. In other cases, for example a statement of cash flows, displayed information will also support achievement of the objectives of financial reporting.

8.20 Developing requirements for the display of line items and totals involves balancing the standardization of displayed information, which facilitates understandability, with information that is tailored for entity-specific factors. The aim of both standardized display requirements and entity-specific information is to ensure that information necessary to meet the objectives of financial reporting is available for all entities, while allowing information to be displayed in a manner that reflects the nature and operations of specific entities.

Information Selected for Disclosure

8.21 Disclosed information is likely to include:

- The basis for the displayed information, such as applicable policies or methodologies;
- Disaggregations of displayed information; and
- Items that share some but not all of the aspects of displayed information—for example disclosures on items that meet some, but not all, of the characteristics of the definition of an element[14] or disclosures on items that meet the definition of an element, but not the recognition criterion.

8.22 The level of detail provided by disclosed information contributes to achievement of the objectives of financial reporting, without being excessive. Disclosed information, like displayed information, is necessary for achievement of the objectives of financial reporting.

8.23 Information disclosed in the notes to the financial statements:

- Is necessary to a user's understanding of the financial statements;
- Provides information that presents the financial statements in the context of the entity and its operating environment; and

[14] Chapter 5, *Elements in Financial Statements*, explains that other resources and other obligations that do not meet the definition of elements may be recognized in order to contribute to the objectives of financial reporting.

- Generally will have a clear and demonstrable relationship to information displayed on the face of the financial statement(s) to which it pertains.

8.24 Information disclosed in the notes may also include:

- Entity-related factors that could influence judgments about reported information (for example, information about related parties and controlled entities or interests in other entities);
- The basis for what is displayed (for example, information on accounting policies and measurement, including measurement methods and measurement uncertainties where applicable);
- Disaggregations of amounts displayed on the face of the statements (for example, a break-down of property, plant and equipment into different classes);
- Items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity's finances and ability to deliver services—for example, information about events and conditions, that might affect future cash flows or service potential, including their natures, possible effects on cash flows or service potential, probabilities of occurrence, and sensitivities to changes in conditions; and
- Information that may explain underlying trends affecting displayed totals.

Principles Applicable to Information Selection

8.25 Decisions about what information needs to be displayed and disclosed involve consideration of:

- The objectives of financial reporting;
- The qualitative characteristics and constraints on information included in GPFRs; and
- The relevant economic or other phenomena about which information may be necessary.

8.26 Information selection results in information that contributes to meeting the objectives of financial reporting, as applied to the area covered by a particular report, and provides the appropriate level of detail. Decisions on information selection involve information prioritization and summarization. Information selection avoids information overload that reduces understandability. Too much information may make it difficult for users to understand the key messages, and, consequently undermines achievement of the objectives of financial reporting.

8.27 Preparers, applying pronouncements and their professional judgment, are responsible for ensuring that information that meets the objectives of financial reporting and achieves the qualitative characteristics is provided in the GPFRs that they prepare.

8.28 Decisions on information selection require continuing and critical review. Information identified for possible selection is reviewed as it is developed and considered for presentation, with particular reference to its relevance, materiality and cost-benefit, although all the qualitative characteristics and constraints are applied to decisions on information selection. Past decisions may require reconsideration because new information may make existing information requirements redundant with the result that those items no longer achieve the qualitative characteristics and/or the constraints.

8.29 All material transactions, events, and other items reported are presented in a manner that conveys their substance rather than their legal or other form so that the qualitative characteristics of relevance and representational faithfulness are achieved.

8.30 The benefits to users of receiving information need to justify the costs to entities of collecting and presenting that information. In making this assessment it is important to consider how individual items impact on the overall view presented and the nature of the information presented. Items that may appear to have little

benefit when viewed in isolation could have much greater benefit in contributing to the complete set of information presented.

8.31 Information needs to be presented on a sufficiently timely basis to enable users to hold management accountable and to inform users' decisions.

8.32 GPFRs may include additional information derived from sources other than the financial information system. The qualitative characteristics apply to such information. The date of delivery of any such additional information needs to be as close as possible to the financial statements' reporting date, so that reported information will be timely.

Principles for Selection of Information for Display and Disclosure

8.33 Decisions about display or disclosure apply to both the financial statements and other GPFRs. The objectives of financial reporting are applied to the area covered by a particular report to guide the identification of information for display or disclosure. The identification of information for display and disclosure in a particular GPFR may involve the development of:

- Classification principles;
- A list of broad types of information that are displayed and a similar list of broad types of information that are disclosed; and/or
- Lists of specific information that preparers must display or disclose.

8.34 Decisions about selection of information to be displayed and disclosed are made:

- With reference to each other rather than in isolation; and
- To effectively communicate an integrated set of information.

8.35 Selection decisions with respect to information in other GPFRs are made after carefully considering the relationship of the other GPFRs to the financial statements.

Information Location

8.36 Decisions on information location are made about which:

- Report information is located within; and
- Component of a report information is located.

8.37 The location of information has an impact on information's contribution to achievement of the objectives of financial reporting and the qualitative characteristics. Location may affect the way that users interpret information and the comparability of information. Location may be used to:

- Convey the relative importance of information and its connections with other items of information;
- Convey the nature of information;
- Link different items of information that combine to meet a particular user need; and
- Distinguish between information selected for display and information selected for disclosure.

Principles for Allocation of Information between Different Reports

8.38 Factors relevant to decisions about allocating information between the financial statements and another GPFR include:

- Nature: Whether the nature of the information, for example historical versus prospective, supports including the information either in the same or a different GPFR, because of considerations related to, for example, comparability and/or understandability;
- Jurisdiction-Specific: Whether jurisdiction-specific factors, such as legal provisions, specify requirements on information location; and
- Linkage: Whether or not the additional information envisaged needs to link very closely to information already included in an existing report. The linkages between all information need to be assessed, not only linkages between new and existing information.

8.39 The factors above, which are expressed from the perspective of adding information to an existing set of information, also apply to considerations of whether the grouping of existing information could be improved, which is discussed in the section on information organization.

8.40 A separate GPFR may be necessary when:

- Additional user information needs, not satisfied by an existing report, are identified; and
- A separate GPFR to meet those needs is more likely to achieve the objectives of financial reporting and the qualitative characteristics than including information in an existing report.

Principles for Location of Information within a Report

8.41 Paragraph 8.17 of this Chapter states that displayed information is presented prominently, using appropriate presentation techniques—location is one way to achieve this. Information location within a report ensures that displayed information is given appropriate prominence and is not obscured by more detailed and extensive disclosed information.

8.42 The location of information in the financial statements contributes to communicating a comprehensive financial picture of an entity.

8.43 For the financial statements, displayed information is shown on the face of the appropriate statement, while disclosures are in the notes. Distinguishing displayed information and disclosed information through location ensures that those items that directly relate to communicating matters, such as an entity's financial position, financial performance and cash flows, can be highlighted, with further more detailed information provided through disclosure in the notes.

8.44 For other GPFRs, displayed information may either be located separately from disclosed information or located in the same area, but distinguished from disclosed information and given prominence through the use of another presentation technique.

Information Organization

8.45 Information organization addresses the arrangement, grouping and ordering of information, which includes decisions on:

- How information is arranged within a GPFR; and
- The overall structure of a GPFR.

8.46 Information organization involves a range of decisions including decisions on the use of cross-referencing, tables, graphs, headings, numbering, and the arrangement of items within a particular component of a report, including decisions on item order. How information is organized can affect its interpretation by users.

Nature of Information Relevant to Organization

8.47 Decisions about the organization of information take into account:

- Important relationships between information; and
- Whether information is for display or disclosure.

Types of Relationships

8.48 Important relationships include, but are not restricted to:

- Enhancement;
- Similarity; and
- Shared purpose.

8.49 *Enhancement:* Information in one place in a GPFR may be enhanced through information provided elsewhere. For example, budget, prospective and service performance information enhances information in the financial statements. Tables and graphs may be used to enhance the understanding of narrative information. Links to information reported outside the GPFRs may enhance the understandability of information reported in GPFRs.

8.50 *Similarity:* A relationship of similarity exists where information reported in one place is based on information reported elsewhere in the GPFRs, and the information either has not been adjusted or has had relatively minor adjustments. For example, if service performance information includes the cost of services, or the value of assets used in different services, then it may be helpful to show how those totals relate to expense and assets reported in the financial statements. Another example is the relationship between the total expense reported against budget and total expense reported in the statement of financial performance. A reconciliation between the two different amounts can enhance users' understanding of an entity's finances.

8.51 *Shared purpose:* A relationship of shared purpose exists where information reported in different places contributes to the same purpose. An example is where different statements and disclosures provide information needed for assessments of accountability for services delivered. Information about (a) the actual and budgeted cost of different services, (b) financial and non-financial resources used in the provision of different services, and (c) future provision of different services may be included in different places. To make the relationship between the information in different places clear, it may be appropriate to organize the information by using techniques such as common headings and referencing.

8.52 Relationships may exist between information in different:

- GPFRs;
- Components within a GPFR; and
- Parts of a single component.

Grouping of Information

8.53 The three factors noted in the section on information selection as being applicable to decisions on information location—linkage, nature of information and jurisdiction-specific considerations—also apply to considerations of whether the grouping of existing information could be improved. Decisions on effective grouping of information consider linkages between information sets, the nature of the different information sets, and, to the extent appropriate, jurisdiction-specific factors.

Principles Applicable to Information Organization

8.54 Information organization:

- Supports achievement of the objectives of financial reporting; and
- Helps reported information meet the qualitative characteristics.

8.55 Information organization:

- Helps to ensure that key messages are understandable;
- Clearly identifies important relationships;
- Gives appropriate prominence to information that conveys key messages; and
- Facilitates comparisons.

8.56 Related information is linked through the use of consistent headings, presentation order, and/or other methods appropriate to the relationship and type of information. Where links are to information reported outside the GPFRs it is important that:

- Links to information from other sources do not undermine a GPFR's achievement of the qualitative characteristics; and
- The issuance date of any such linked information is as close as possible to the financial statements' reporting date so that reported information will be timely.

Comparability

8.57 Information organization takes into account the benefits of consistent presentation over time. Consistent presentation supports users' ability to understand information and facilitates their access to information. It helps to achieve the qualitative characteristic of comparability.

Principles for Information Organization within the Financial Statements

8.58 Information displayed on the face of the financial statements is usually organized into numeric totals and sub-totals. Its organization provides a structured overview of such matters as the reporting entity's financial position, financial performance and cash flows.

8.59 For the financial statements, relationships may exist between:

- Subsets of displayed amounts or changes in displayed amounts and their impact on an entity's financial position, financial performance and/or cash flows;
- Different displayed amounts in different financial statements, which all reflect the impact of a common external event, or contribute together towards an understanding of an aspect of the entity's financial position or financial performance; and
- Displayed amounts and related note disclosures that provide information that explains or could otherwise support users' understanding of displayed items.

8.60 The organization of information in financial statements includes decisions on:

- The type and number of statements;
- Disaggregation of totals into meaningful subcategories;
- Ordering and grouping of items displayed within each statement;
- Identification of aggregates (additive and subtractive); and
- Identification of other information for inclusion on the face of the statement.

8.61 Information disclosed in the notes to the financial statements is organized so that relationships to items reported on the face of the financial statements are clear. The notes are an integral part of the financial statements.

Principles for Organization of Information within Other GPFRs

8.62 As is the case for the financial statements, information organization in other GPFRs helps to ensure that key messages conveyed by displayed information are understandable. Presentation that clearly identifies important relationships is likely to enhance the extent to which a report:

- Meets the objectives of financial reporting; and
- Achieves the qualitative characteristics.

8.63 Linking related information helps users to find important information. Some information is more understandable when organized into graphs, charts, tables, ratios or key performance indicators. Other information may be presented more effectively in narrative form. Information organization supports users' understanding of linkages between information within the same GPFR.

8.64 Information organization facilitates comparisons such as making clear when items are similar or dissimilar. Inter-period comparability is facilitated by avoiding changes to the way that information is organized for the same entity from year to year unless such changes enhance relevance and understandability. Inter-entity comparisons are facilitated when different reporting entities organize the information they present in similar ways.

Basis for Conclusions

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

Concepts Applicable to Presentation in GPFRs

BC8.1 This Chapter describes concepts applicable to presentation in GPFRs, including both financial statements and additional information that enhances, complements, and supplements the financial statements. During development of this Chapter some respondents to the Consultation Paper, *Presentation in General Purpose Financial Reports* (the Consultation Paper), and the Exposure Draft, *Presentation in General Purpose Financial Reports* (the Exposure Draft), argued that the IPSASB should focus exclusively on the financial statements. Some respondents who supported the proposed more comprehensive approach considered that the resulting concepts should also be sufficiently detailed to address issues particular to financial statements.

BC8.2 The IPSASB considers that effective presentation of information in both financial statements and other GPFRs is very important in meeting the objectives of financial reporting. Presentation of information in other GPFRs raises particular challenges for the IPSASB and preparers, which makes the development of applicable concepts essential to guide the development of presentation requirements in both IPSAS and RPG. Nevertheless, the IPSASB acknowledged the need to provide concepts that are sufficiently detailed for application to the financial statements. Therefore this Chapter describes presentation concepts for all GPFRs, and sets out the concepts applicable to financial statements in more depth.

Presentation in the Financial Statements

BC8.3 The further detail provided on financial statements responds, as noted above, to the need to ensure that the concepts proposed are applicable to the financial statements. However, this Chapter does not propose the number or type of financial statements that should be specified in IPSAS and RPG. This approach acknowledges that, internationally, some preparers treat the “primary” financial statements as a minimum requirement, with flexibility for the preparer to add further statements—for example, additional statements that list commitments or public sector debt—to the financial statements required by IPSAS. It is also consistent with the need to avoid over-specification at the Conceptual Framework level.

BC8.4 This Chapter also does not attempt to identify a list of information that should be included in the financial statements, including the notes. This means that the presentation concepts applicable to the financial statements will remain relevant as changes occur in areas such as:

- The type of information required to adequately meet the objectives of financial reporting;
- The information technology available to present information in GPFRs; and
- The type of economic or other phenomena on which financial statements present information.

Language in which Financial Statements and Other GPFRs are issued

BC8.5 Some respondents to the Exposure Draft expressed a view that the language (or languages) in which the financial statements and other GPFRs are issued has implications for whether they will support achievement of the objectives of financial reporting and achieve the qualitative characteristics. Responding to this concern the IPSASB decided that this Chapter should address the language(s) in which GPFRs are issued. The quality of any translation will impact on the usefulness of a GPFR to users who depend on that translation. The quality of translation should be sufficient to ensure that the translated version(s) are faithful to the original language version. A faithful translation enables users to obtain the same understanding as that of an original language speaker reading the original language version.

Presentation, Display and Disclosure

BC8.6 During development of this Chapter descriptions of “presentation”, “display”, “disclosure”, “core information”, and “supporting information” were proposed. Respondents had different views on whether the descriptions were appropriate. There was significant support for the description of presentation, which covered the selection, location and organization of information. Some respondents opposed the introduction of such descriptions, because they considered that the terms “presentation” and “disclosure” have been widely used by standard setters and have generally accepted meanings. Some respondents to the Exposure Draft advocated the alignment of the IPSASB’s terminology with the presentation terminology for the financial statements under development by the International Accounting Standards Board in its project to update its Conceptual Framework.

BC8.7 The IPSASB considers that having terminology that applies to all information included in GPFRs, rather than just the financial statements, may prevent full alignment with terminology that relates only to the financial statements. If the term “presentation” applies to information that conveys key messages in the financial statements, then extending the same term to other information included in GPFRs changes the meaning of the term. The term “display” signals that information that conveys key messages can be selected for either the financial statements or other information included in GPFRs.

BC8.8 The IPSASB is of the view that the distinction between presentation and disclosure used in some jurisdictions, where presentation applies to the process of reporting information on the face of a statement and disclosure applies to the process of reporting information in the notes, is inadequate for presentation concepts for GPFRs. Distinctions focused on the financial statements have limited usefulness and may be confusing for other GPFRs outside the financial statements. In the context of the financial statements, display and disclosure support a clear distinction between the process of reporting information on the face of a financial statement—display—and that of reporting information in the notes to the statements—disclosure. For these reasons the IPSASB retained the descriptions of presentation, display and disclosure proposed in the Exposure Draft with revised explanations.

BC8.9 The description of presentation proposed in the Consultation Paper included both what presentation is—information selection, location and organization—and what presentation should do—it should meet the objectives of financial reporting, the needs of users, and achieve the qualitative characteristics. After further consideration the IPSASB decided that separation of these two areas would better facilitate consideration of presentation issues. Therefore presentation is described as information selection, location and organization. There is also a description of what presentation aims to achieve, which is to provide information that contributes to the objectives of financial reporting, and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs.

BC8.10 Some respondents considered the distinction between core and supporting information proposed in the Consultation Paper implied that information in the notes to the financial statements is less important than information on the face of a statement and that it created a hierarchy. Although the IPSASB did not intend to imply that supporting information is less important than core information the IPSASB acknowledged such concerns. The IPSASB therefore reconsidered the need for a distinction between core and supporting information and concluded that incorporating the ideas related to these two types of information into the descriptions of display and disclosure within each GPFR would be more appropriate. Consequently the terms core information and supporting information were not retained in the Exposure Draft and the descriptions of display and disclosure were revised to explain what types of information would be displayed and what disclosed, without the implication that one type of information is more important than the other. This approach is reflected in this Chapter.

BC8.11 The IPSASB also considered whether all GPFRs contain both information for display and information for disclosure, and whether it is possible to have a GPFR that only contains information for disclosure. Because

key messages exist for each type of GPFR, and information to convey those key messages needs to be displayed, the IPSASB concluded that all GPFRs contain both information for display and information for disclosure.

Overall Approach to Presentation

BC8.12 The Consultation Paper proposed an approach to presentation of:

- Focusing on user needs to identify presentation objectives;
- Applying the qualitative characteristics to presentation decisions; and
- Identifying separate presentation concepts—the proposed concepts were Concept 1: Select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely; Concept 2: Locate information to meet user needs; and Concept 3: Organize information to make important relationships clear and support comparability.

The Consultation Paper also proposed that presentation objectives should be established at the standards level, for application to particular reports or reporting topics.

BC8.13 Respondents generally agreed that the needs of users and achievement of the qualitative characteristics were important for presentation decisions. They supported the development of presentation objectives, but advocated that such objectives should be included in the Conceptual Framework, rather than just at standards level. Although they generally agreed that separate presentation concepts should be developed, a significant number of respondents disagreed with the three presentation concepts proposed. Some respondents disagreed with the way that the three presentation concepts emphasized particular qualitative characteristics or constraints on information included in GPFRs. They argued that other qualitative characteristics or constraints should be addressed. Others argued that the concepts added little, if anything, to the discussion of the qualitative characteristics and constraints on information included in GPFRs in Chapter 3, *Qualitative Characteristics*.

BC8.14 On balance the IPSASB concluded that a simpler, more focused approach, which directly applied the concepts in Chapters 1–4 to presentation decisions was appropriate. The IPSASB is of the view that decisions on information selection, location and organization are made in response to the needs of users for information about economic or other phenomena. Presentation decisions are made to seek to achieve the objectives of financial reporting, and they involve application of the qualitative characteristics and constraints on information included in GPFRs.

BC8.15 Presentation decisions may be either (a) decisions that may result in development of a new report, movement of information between reports, or the amalgamation of existing reports; or, (b) detailed decisions on information selection, location and organization related to information within a report. It is useful to distinguish between these two types of presentation decisions in the context of the more comprehensive scope of financial reporting discussed in Chapter 2. Both types of decisions are important and there is no intention to convey a hierarchy. The difference is one of breadth or sequencing of decisions—for example, a decision to create a new report conveys that a broad set of information will be presented. The subsequent, more specific decisions will address what is presented within that report and are equally important.

BC8.16 The need to distinguish between the display and disclosure of information is a further important aspect of the IPSASB's overall approach to presentation. An example of a detailed decision within a report is a decision about whether information should be displayed on the face of a financial statement or disclosed in the notes.

Presentation Objectives

BC8.17 As stated above, in the Consultation Paper the IPSASB proposed the development of "presentation objectives" to guide presentation decisions. Although many respondents supported identifying presentation

objectives the IPSASB decided against the inclusion of presentation objectives in this Chapter, because they would create an unnecessary additional layer of objectives beneath the objectives of financial reporting in Chapter 2. Development of a second layer of presentation objectives could be confusing and detract from the objectives of financial reporting. This approach was proposed in the Exposure Draft and was generally supported by respondents.

Application of the Qualitative Characteristics and Constraints

BC8.18 During development of this Chapter many respondents supported application of the qualitative characteristics to presentation decisions. However, some respondents expressed reservations that the constraints on information included in GPFRs had not been properly integrated into the overall approach to presentation. The IPSASB agrees that the constraints apply to presentation decisions. They are therefore included in the overall approach to presentation and in subsequent discussion of the application of the three presentation decisions.

Presentation Concepts

BC8.19 After considering respondents' concerns about the three presentation concepts proposed in the Consultation Paper and possible further changes to address those concerns, the IPSASB concluded that the ideas in the three concepts were adequately addressed through application of the qualitative characteristics and constraints on information included in GPFRs to presentation decisions. Therefore, in the Exposure Draft the IPSASB replaced the three presentation concepts proposed in the Consultation Paper with a revised description of the application of the qualitative characteristics and constraints on information included in GPFRs to presentation decisions. Respondents to the Exposure Draft generally supported the direct application of the concepts established in Chapters 1–4, rather than development of an intermediary set of either presentation concepts or presentation objectives.

Information Organization: Links to External Information

BC8.20 Chapter 2 of the Conceptual Framework explains that users of GPFRs may also need to consider information from other sources, including reports on current and anticipated economic conditions, budgets and forecasts, and information about government policy initiatives not reported in GPFRs. The IPSASB considered whether GPFRs should include links to such information. Although the IPSASB acknowledged the risk that such information may not achieve the qualitative characteristics, the IPSASB concluded that such links can support understandability. Therefore, provided information from external sources does not undermine achievement of the qualitative characteristics the IPSASB concluded that GPFRs might include links to such information.

Appendix A

Conceptual Framework Due Process Publications

Title	Date Issued	Consultation Period Ended
Consultation Paper, *The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*	September 30, 2008	March 30, 2009
Consultation Paper, *Elements and Recognition in Financial Statements*	December 15, 2010	June 14, 2011
Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*	December 15, 2010	June 14, 2011
Exposure Draft 1, *Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*	December 15, 2010	June 14, 2011
Exposure Draft, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*	April 29, 2011	August 31, 2011
Consultation Paper, *Presentation in General Purpose Financial Reports*	January 29, 2012	May 31, 2012
Exposure Draft 2, *Elements and Recognition in Financial Statements*	November 7, 2012	April 30, 2013
Exposure Draft 3, *Measurement of Assets and Liabilities in Financial Statements*	November 7, 2012	April 30, 2013
Exposure Draft 4, *Presentation in General Purpose Financial Reports*	April 17, 2013	August 15, 2013
Exposure Draft 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*	April 22, 2021	October 25, 2021
Exposure Draft 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*	February 1, 2022	May 31, 2022

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IPSAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 1 (Revised 2003), *Presentation of Financial Statements*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 1 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 1, *Presentation of Financial Statements* was issued in May 2000.

In December 2006, the IPSASB issued a revised IPSAS 1.

Since then, IPSAS 1 has been amended by the following IPSAS Accounting Standards:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- *Improvements to IPSAS, 2023* (issued April 2024)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective* Dates (issued November 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 38, *Disclosure of Interests in Other Entities* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standar*ds (IPSAS) (issued January 2015)
- *Improvements to IPSAS 2014* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 30, *Financial Instruments: Disclosures* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 28, *Financial Instruments: Presentation* (issued January 2010)

Table of Amended Paragraphs in IPSAS 1

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
4	Amended	IPSAS 35 January 2015
5	Deleted	*The Applicability of IPSAS* April 2016
6	Deleted	*The Applicability of IPSAS* April 2016
7	Amended	IPSAS 35 January 2015 *The Applicability of IPSAS* April 2016 IPSAS 41 August 2018 IPSAS 45 May 2023 *Definition of Material* October 2025
7A	New	IPSAS 28 January 2010
12	Deleted	*The Applicability of IPSAS* April 2016
12A	New	*Definition of Material* October 2025
13	Amended	*Definition of Material* October 2025
13A	New	*Definition of Material* October 2025
21	Amended	*Improvements to IPSAS* January 2015
29	Amended	*Improvements to IPSAS* April 2016
44	Amended	*Improvements to IPSAS* April 2016
50	Amended	IPSAS 47 May 2023
53	Amended	*Improvements to IPSAS* January 2015
53A	New	*Improvements to IPSAS* January 2015
54	Amended	*Improvements to IPSAS* January 2015
70	Amended	*Improvements to IPSAS* April 2016 *Improvements to IPSAS, 2023* April 2024
73	Amended	*Improvements to IPSAS* April 2016
74	Amended	*Improvements to IPSAS* April 2016
75	Amended	IPSAS 30 January 2010
79	Amended	IPSAS 29 January 2010 *Improvements to IPSAS* January 2010 IPSAS 41 August 2018
80	Amended	*Improvements to IPSAS* November 2010 *Improvements to IPSAS, 2023* April 2024

Paragraph Affected	How Affected	Affected By
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83A	New	*Improvements to IPSAS, 2023* April 2024
83B	New	*Improvements to IPSAS, 2023* April 2024
84	Amended	*Improvements to IPSAS, 2023* April 2024
85	Amended	*Improvements to IPSAS, 2023* April 2024
86A	New	*Improvements to IPSAS, 2023* April 2024
87	Amended	*Improvements to IPSAS, 2023* April 2024
87A	New	*Improvements to IPSAS, 2023* April 2024
Heading above paragraph 87B	New	*Improvements to IPSAS, 2023* April 2024
87B	New	*Improvements to IPSAS, 2023* April 2024
87C	New	*Improvements to IPSAS, 2023* April 2024
88	Amended	IPSAS 35 January 2015 IPSAS 42 January 2019 IPSAS 44 May 2022 IPSAS 47 May 2023 IPSAS 51 January 2026
92	Amended	IPSAS 45 May 2023 IPSAS 51 January 2026
94	Amended	IPSAS 42 January 2019 IPSAS 45 May 2023 IPSAS 47 May 2023
95	Amended	IPSAS 35 January 2015
95A	New	IPSAS 28 January 2010
97	Amended	IPSAS 35 January 2015 *The Applicability of IPSAS* April 2016
101	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
		IPSAS 45 May 2023
102	Amended	IPSAS 41 August 2018 IPSAS 44 May 2022
103	Amended	IPSAS 35 January 2015
107	Amended	IPSAS 44 May 2022 IPSAS 51 January 2026
109	Amended	*Improvements to IPSAS* April 2016
112	Amended	IPSAS 42 January 2019
113	Amended	IPSAS 42 January 2019
114	Amended	IPSAS 42 January 2019
115	Amended	IPSAS 42 January 2019
116	Amended	IPSAS 39 July 2016 *Improvements to IPSAS* April 2016
118	Amended	IPSAS 35 January 2015
125A	New	IPSAS 41 August 2018
125B	New	IPSAS 41 August 2018
125C	Amended	IPSAS 41 August 2018 IPSAS 45 May 2023
129	Amended	IPSAS 30 January 2010
133	Amended	IPSAS 46 May 2023
134	Amended	IPSAS 38 January 2015 IPSAS 45 May 2023 IPSAS 46 May 2023 IPSAS 51 January 2026
135	Amended	IPSAS 35 January 2015 IPSAS 40 January 2017 IPSAS 47 May 2023
138	Amended	IPSAS 41 August 2018
139	Amended	IPSAS 38 January 2015
141	Amended	IPSAS 46 May 2023
143	Amended	IPSAS 46 May 2023
148	Amended	IPSAS 30 January 2010

Paragraph Affected	How Affected	Affected By
		IPSAS 45 May 2023
148A	New	IPSAS 30 January 2010
148B	New	IPSAS 30 January 2010
148C	New	IPSAS 30 January 2010
148D	New	IPSAS 28 January 2010
150	Amended	IPSAS 28 January 2010
151	Deleted	IPSAS 33 January 2015
152	Deleted	IPSAS 33 January 2015
153A	New	*Improvements to IPSAS* January 2010
153B	New	IPSAS 28 January 2010
153C	New	IPSAS 30 January 2010
153D	New	*Improvements to IPSAS* November 2010
153E	New	*Improvements to IPSAS* January 2015
153F	New	IPSAS 33 January 2015
153G	New	IPSAS 38 January 2015 IPSAS 35 January 2015
153H	New	*Improvements to IPSAS* April 2016
153I	New	*The Applicability of IPSAS* April 2016
153J	New	IPSAS 39 July 2016
153K	New	IPSAS 40 January 2017
153L	Amended	*COVID-19: Deferral of Effective Dates* November 2020
153M	New	IPSAS 42 January 2019
153N	New	IPSAS 44 May 2022
153O	New	IPSAS 45 May 2023
153P	New	IPSAS 46 May 2023
153Q	New	IPSAS 47 May 2023
153R	New	*Improvements to IPSAS, 2023* April 2024
153S	Amended	*Definition of Material* October 2025
153T	New	IPSAS 51 January 2026
154	Amended	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
		IPSAS 33 November 2025
Implementation Guidance	Amended	IPSAS 44 May 2022 IPSAS 47 May 2023

IPSAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

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International Public Sector Accounting Standard 1, *Presentation of Financial Statements*, is set out in paragraphs 1−155. All the paragraphs have equal authority. IPSAS 1 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other IPSAS.

Scope

2. **This Standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with IPSAS.**

3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document, such as an annual report. This Standard does not apply to condensed interim financial information.

4. This Standard applies equally to all entities including those that present consolidated financial statements in accordance with IPSAS 35, *Consolidated Financial Statements* and those that present separate financial statements, in accordance with IPSAS 34, *Separate Financial Statements*.

5. [Deleted]

6. [Deleted]

Definitions

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

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

(a) **Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**

(b) **Can be sold, exchanged, transferred, or redeemed.**

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

An economic entity is a controlling entity and its controlled entities.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Material Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial statements prepared for that reporting period.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests. Types of reserves include:

(a) **Changes in revaluation surplus (see IPSAS 31, *Intangible Assets* and IPSAS 45, *Property, Plant, and Equipment*);**

(b) **Remeasurements of defined benefit plans (see IPSAS 39, *Employee Benefits*);**

(c) **Gains and losses arising from translating the financial statements of a foreign operation (see IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*);**

(d) **Gains and losses from investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41, *Financial Instruments*;**

(e) **Gains and losses on financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41;**

(f) **The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 (see paragraphs 113–155 of IPSAS 41);**

(g) **For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 108 of IPSAS 41);**

(h) **Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see paragraphs 113–155 of IPSAS 41); and**

(i) **Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see paragraphs 113–155 of IPSAS 41).**

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

7A. The following terms are described in IPSAS 28*, Financial Instruments: Presentation* and are used in this Standard with the meaning specified in IPSAS 28:

(a) Puttable financial instrument classified as an equity instrument (described in paragraphs 15 and 16 of IPSAS 28);

(b) An instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 17 and 18 of IPSAS 28).

Economic Entity

8. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

9. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

10. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

11. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

12. [Deleted]

Materiality

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

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

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

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

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

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

13. Assessing whether information could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of a specific reporting entity's general purpose financial statements, requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

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

Net Assets/Equity

14. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Purpose of Financial Statements

15. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

(a) Providing information about the sources, allocation, and uses of financial resources;

(b) Providing information about how the entity financed its activities and met its cash requirements;

(c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

(d) Providing information about the financial condition of the entity and changes in it; and

(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency, and accomplishments.

16. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

(a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and

(b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

17. To meet these objectives, the financial statements provide information about an entity's:

(a) Assets;

(b) Liabilities;

(c) Net assets/equity;

(d) Revenue;

(e) Expenses;

(f) Other changes in net assets/equity; and

(g) Cash flows.

18. Although the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general).

20. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements

21. **A complete set of financial statements comprises:**

(a) **A statement of financial position;**

(b) **A statement of financial performance;**

(c) **A statement of changes in net assets/equity;**

(d) **A cash flow statement;**

(e) **When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements;**

(f) **Notes, comprising a summary of significant accounting policies and other explanatory notes; and**

(g) **Comparative information in respect of the preceding period as specified in paragraphs 53 and 53A of IPSAS 1.**

22. The components listed in paragraph 21 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes may include items referred to as schedules in some jurisdictions.

23. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

24. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Entities that make publicly available their approved budget(s) are required to comply with the requirements of IPSAS 24, *Presentation of Budget Information in Financial Statements*. For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budget(s) for these entities may be presented in various different ways, including:

- The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and
- Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

25. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of (a) performance indicators, (b) statements of service performance, (c) program reviews, and (d) other reports by management about the entity's achievements over the reporting period.

26. Entities are also encouraged to disclose information about compliance with legislative, regulatory, or other externally-imposed regulations. When information about compliance is not included in the financial

statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes, and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Fair Presentation and Compliance with IPSAS

27. **Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.**

28. **An entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS.**

29. In virtually all circumstances, a fair presentation is achieved by compliance with applicable IPSAS. A fair presentation also requires an entity:

    (a) To select and apply accounting policies in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.* IPSAS 3 sets out a hierarchy of authoritative guidance that management considers, in the absence of a Standard that specifically applies to an item.

    (b) To present information, including accounting policies, in a manner that provides relevant, faithfully representative, understandable, timely, comparable, and verifiable information.

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

30. **Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**

31. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

32. **When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose:**

    (a) **That management has concluded that the financial statements present fairly the entity's financial position, financial performance, and cash flows;**

    (b) **That it has complied with applicable IPSAS, except that it has departed from a particular requirement to achieve a fair presentation;**

    (c) **The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would**

be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and

(d) **For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

33. **When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognized in the financial statements for the current period, it shall make the disclosures set out in paragraph 32(c) and (d).**

34. Paragraph 33 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities, and that departure affects the measurement of changes in assets and liabilities recognized in the current period's financial statements.

35. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) **The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this Standard; and**

(b) **For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.**

36. For the purpose of paragraphs 31−35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events, and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, management considers:

(a) Why the objective of financial statements is not achieved in the particular circumstances; and

(b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this Standard.

37. Departures from the requirements of an IPSAS in order to comply with statutory/legislative financial reporting requirements in a particular jurisdiction do not constitute departures that conflict with the objective of financial statements set out in this Standard as outlined in paragraph 31. If such departures are material, an entity cannot claim to be complying with IPSAS.

Going Concern

38. **When preparing financial statements, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant**

doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

39. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and

(b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organizational units, (c) estimates of revenue or the likelihood of continued government funding, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

42. **The presentation and classification of items in the financial statements shall be retained from one period to the next unless:**

(a) **It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or**

(b) **An IPSAS requires a change in presentation.**

43. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

44. An entity changes the presentation of its financial statements only if the changed presentation provides information that is faithfully representative and is more relevant to users of the financial statements, and the

revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 55 and 56.

Materiality and Aggregation

45. **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.**

46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

47. Applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material.

Offsetting

48. **Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.**

49. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both (a) to understand the transactions, other events and conditions that have occurred, and (b) to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

50. IPSAS 47, *Revenue*, requires revenue to be measured at the amount of consideration to which the entity expects to be entitled in the transaction. The amount of revenue recognized reflects any trade discounts and volume rebates allowed by the entity. In the course of its activities, an entity undertakes other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

    (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

    (b) Expenses related to a provision that is recognized in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.

51. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

52. The offsetting of cash flows is dealt with in IPSAS 2, *Cash Flow Statements.*

Comparative Information

Minimum Comparative Information

53. **Except when an IPSAS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.**

53A. **An entity shall present, as a minimum, one statement of financial position with comparative information for the preceding period, one statement of financial performance with comparative information for the preceding period, one cash flow statement with comparative information for the preceding period and one statement of changes in net assets/equity with comparative information for the preceding period, and related notes.**

54. In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

55. **When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**

(a) **The nature of the reclassification;**

(b) **The amount of each item or class of items that is reclassified; and**

(c) **The reason for the reclassification.**

56. **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

(a) **The reason for not reclassifying the amounts; and**

(b) **The nature of the adjustments that would have been made if the amounts had been reclassified.**

57. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

58. IPSAS 3 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Structure and Content

Introduction

59. This Standard requires particular disclosures on the face of the statement of financial position, statement of financial performance, and statement of changes in net assets/equity, and requires disclosure of other line items either on the face of those statements or in the notes. IPSAS 2 sets out requirements for the presentation of a cash flow statement.

60. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of the (a) statement of financial position, (b) statement of financial performance, (c) statement of changes in net assets/equity, and (d) cash flow statement, as well as in the notes. Disclosures are also required by other IPSAS. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

Identification of the Financial Statements

61. **The financial statements shall be identified clearly, and distinguished from other information in the same published document.**

62. IPSAS apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using IPSAS from other information that may be useful to users but is not the subject of those requirements.

63. **Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:**

    (a) **The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;**

    (b) **Whether the financial statements cover the individual entity or the economic entity;**

    (c) **The reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;**

    (d) **The presentation currency, as defined in IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*; and**

    (e) **The level of rounding used in presenting amounts in the financial statements.**

64. The requirements in paragraph 63 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

65. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

66. **Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**

    (a) **The reason for using a longer or shorter period; and**

    (b) **The fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement, and related notes are not entirely comparable.**

67. In exceptional circumstances, an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that (a) users be aware that the amounts shown for the current period and comparative amounts are not comparable, and (b) the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

68. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Timeliness

69. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

Statement of Financial Position

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76–87C, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

71. **Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date, and (b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.**

72. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

73. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is faithfully representative and is more relevant than a current/non-current presentation, because the entity does not supply goods or services within a clearly identifiable operating cycle.

74. In applying paragraph 70, an entity is permitted to present some of its assets and liabilities using a current/non-current classification, and others in order of liquidity, when this provides information that is faithfully representative and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

75. Information about expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IPSAS 30, *Financial Instruments: Disclosures*, requires disclosure of the maturity dates

of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

Current Assets

76. **An asset shall be classified as current when it satisfies any of the following criteria:**

(a) **It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;**

(b) **It is held primarily for the purpose of being traded;**

(c) **It is expected to be realized within twelve months after the reporting date; or**

(d) **It is cash or a cash equivalent (as defined in IPSAS 2), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.**

All other assets shall be classified as non-current.

77. This Standard uses the term non-current assets to include tangible, intangible, and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

78. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political, and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

79. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realized, consumed or sold, as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IPSAS 41) and the current portion of non-current financial assets.

Current Liabilities

80. **A liability shall be classified as current when it satisfies any of the following criteria:**

(a) **It is expected to be settled in the entity's normal operating cycle;**

(b) **It is held primarily for the purpose of being traded;**

(c) **It is due to be settled within twelve months after the reporting date; or**

(d) **The entity does not have the right to at the reporting date defer settlement of the liability for at least twelve months after the reporting date.**

All other liabilities shall be classified as non-current.

Normal Operating Cycle (paragraph 80(a))

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Held Primarily for the Purpose of Trading (paragraph 80(b) or Due to be Settled within Twelve Months (paragraph 80(c))

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities that meet the definition of held for trading in IPSAS 41, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 83A–86.

83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

(a) The original term was for a period longer than twelve months; and

(b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue.

Right to Defer Settlement for at Least Twelve Months (paragraph 80(d))

83A. An entity's right to defer settlement of a liability for at least twelve months after the reporting date must have substance and, as illustrated in paragraphs 83B–86, must exist at the reporting date.

83B. An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting date may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 80(d), such covenants:

(a) Affect whether that right exists at the reporting date—as illustrated in paragraphs 85–86—if an entity is required to comply with the covenant on or before the reporting date. Such a covenant affects whether the right exists at the reporting date even if compliance with the covenant is assessed only after the reporting date (for example, a covenant based on the entity's financial position at the reporting date but assessed for compliance only after the reporting date).

(b) Do not affect whether that right exists at the reporting date if an entity is required to comply with the covenant only after the reporting date (for example, a covenant based on the entity's financial position six months after the reporting date).

84. If an entity has the right, at the reporting date, to roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. If the entity has no such right, the entity does not consider the potential to refinance and classifies the obligation as current.

85. When an entity breaches a covenant of a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have the right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

86A. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date. If a liability meets the criteria in paragraph 80 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting date, or even if the entity settles the liability between the reporting date and the date the financial statements are authorized for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 29(c) and 87(d)).

87. If the following events occur between the reporting date and the date the financial statements are authorized for issue, those events qualify for disclosure as non-adjusting events in accordance with IPSAS 14, *Events after the Reporting Date*:

(a) Refinancing on a long-term basis of a liability classified as current (see paragraph 83);

(b) Rectification of a breach of a long-term loan agreement classified as current (see paragraph 85);

(c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement classified as current (paragraph 86); and

(d) Settlement of a liability classified as non-current (see paragraph 86A).

87A. In applying paragraphs 80–86, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date (see paragraph 83B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:

(a) Information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.

(b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the reporting date.

Settlement (paragraphs 80(a), 80(c) and 80(d))

87B. For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

(a) Cash or other resources—for example, goods or services; or

(b) The entity's own equity instruments, unless paragraph 87C applies.

87C. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying IPSAS 28, *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognizing it separately from the liability as an equity component of a compound financial instrument.

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) **Property, plant, and equipment;**

(b) **Investment property;**

(ba) **Tangible natural resources held for conservation**;

(c) **Intangible assets;**

(d) **Financial assets (excluding amounts shown under (e), (g), (h) and (i));**

(e) **Investments accounted for using the equity method;**

(f) **Inventories;**

(g) [Deleted]

(h) **Receivables;**

(i) **Cash and cash equivalents;**

(ia) **The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations;***

(j) **Taxes and transfers payable;**

(ja) **Social benefits liabilities;**

(k) **Payables;**

(l) **Provisions;**

(m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**

(ma) **Liabilities included in disposal groups classified as held for sale in accordance with IPSAS 44;**

(n) **Non-controlling interest, presented within net assets/equity; and**

(o) **Net assets/equity attributable to owners of the controlling entity.**

89. **Additional line items, headings, and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**

90. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Implementation Guidance to this Standard. In addition:

(a) Line items are included when the size, nature, or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

91. The judgment on whether additional items are presented separately is based on an assessment of:

(a) The nature and liquidity of assets;

(b) The function of assets within the entity; and

(c) The amounts, nature and timing of liabilities.

92. The use of different measurement models for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45. Similarly, different classes of tangible natural resources held for conservation can be carried at historical cost or current value in accordance with IPSAS 51, *Tangible Natural Resources Held for Conservation*.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

93. **An entity shall disclose, either on the face of the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**

94. The detail provided in subclassifications depends on the requirements of IPSAS and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 45;

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other revenue transactions, receivables from related parties, prepayments, and other amounts;

(c) Inventories are subclassified in accordance with IPSAS 12, Inventories, into classifications such as merchandise, production supplies, materials, work in progress, and finished goods;

(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;

(e) Provisions are disaggregated into provisions for employee benefits and other items; and

(f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

95. **When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**

(a) **Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**

(b) **Accumulated surpluses or deficits;**

(c) **Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and**

(d) **Non-controlling interests.**

95A. **If an entity has reclassified:**

(a) **A puttable financial instrument classified as an equity instrument; or**

(b) **An instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument;**

between financial liabilities and net assets/equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or net assets/equity), and the timing and reason for that reclassification.

96. Many public sector entities will not have share capital, but the entity will be controlled exclusively by another public sector entity. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves that reflect the net assets/equity attributable to the entity's operations.

97. In some cases, there may be a non-controlling interest in the net assets/equity of the entity. For example, at the whole-of-government level, the economic entity may include a commercial public sector entity that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

98. **When an entity has share capital, in addition to the disclosures in paragraph 95, it shall disclose the following, either on the face of the statement of financial position or in the notes:**

(a) **For each class of share capital:**

(i) **The number of shares authorized;**

(ii) **The number of shares issued and fully paid, and the number issued but not fully paid;**

(iii) **Par value per share, or that the shares have no par value;**

(iv) **A reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

(v) **The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**

(vi) **Shares in the entity held by the entity or by its controlled entities or associates; and**

(vii) **Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and**

(b) **A description of the nature and purpose of each reserve within net assets/equity.**

Statement of Financial Performance

Surplus or Deficit for the Period

99. **All items of revenue and expense recognized in a period shall be included in surplus or deficit, unless an IPSAS requires otherwise.**

100. Normally, all items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. IPSAS 3 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

101. Other IPSAS deal with items that may meet definitions of revenue or expense set out in this Standard, but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 45), particular (a) gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4), and (b) gains or losses on remeasuring financial assets measured at fair value through net assets/equity (guidance on measurement of financial assets can be found in IPSAS 41).

Information to be Presented on the Face of the Statement of Financial Performance

102. **As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:**

(a) **Revenue, presenting separately:**

(i) **Interest revenue calculated using the effective interest method; and**

(ii) **Gains and losses arising from the derecognition of financial assets measured at amortized cost;**

(b) **Finance costs;**

(ba) **Impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with paragraphs 73–93 of IPSAS 41;**

(c) **Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;**

(ca) **If a financial asset is reclassified out of the amortized cost measurement category so that it is measured at fair value through surplus or deficit, any gain or loss arising from a difference between the previous amortized cost of the financial asset and its fair value at the reclassification date (as defined in IPSAS 41);**

(cb) **If a financial asset is reclassified out of the fair value through net asset/equity measurement category so that it is measured at fair value through surplus or deficit, any cumulative gain or loss previously recognized in net assets/equity that is reclassified to surplus or deficit;**

(d) [Deleted]

(e) **Surplus or deficit; and**

(f) **A single amount for the total of discontinued operations (see IPSAS 44).**

103. **The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:**

(a) **Surplus or deficit attributable to non-controlling interest; and**

(b) **Surplus or deficit attributable to owners of the controlling entity.**

104. **Additional line items, headings, and subtotals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.**

105. Because the effects of an entity's various activities, transactions, and other events differ in terms of their impact on its ability to meet its service delivery obligations, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 48 are met.

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

106. **When items of revenue and expense are material, their nature and amount shall be disclosed separately**.

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) Write-downs of inventories to net realizable value or of property, plant, and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

(b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) Disposals of items of property, plant, and equipment;

(ca) Disposals of tangible natural resources held for conservation;

(d) Privatizations or other disposals of investments;

(e) Discontinued operations;

(f) Litigation settlements; and

(g) Other reversals of provisions.

108. **An entity shall present, either on the face of the statement of financial performance or in the notes, a subclassification of total revenue, classified in a manner appropriate to the entity's operations.**

109. **An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.**

110. Entities are encouraged to present the analysis in paragraph 109 on the face of the statement of financial performance.

111. Expenses are subclassified to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting entity. This analysis is provided in one of two ways.

112. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits, and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
Social benefits expenses	X	
Depreciation and amortization expense	X	
Other expenses	X	
Total expenses		(X)
Surplus		X

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue	X
Expenses:	
Social benefits expenses	(X)
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus	X

114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of social benefits, health and education services. The entity would present expense line items for each of these functions.

115. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense, social benefits expense and employee benefits expense.**

116. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and faithfully representative presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 115, employee benefits has the same meaning as in IPSAS 39.

117. **When an entity provides a dividend or similar distribution to its owners and has share capital, it shall disclose, either on the face of the statement of financial performance or the statement of changes in net assets/equity, or in the notes, the amount of dividends or similar distributions recognized as distributions to owners during the period, and the related amount per share.**

Statement of Changes in Net Assets/Equity

118. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**

(a) **Surplus or deficit for the period;**

(b) **Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;**

(c) **Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to non-controlling interest; and**

(d) **For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.**

119. **An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:**

(a) **The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;**

(b) **The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and**

(c) **To the extent that components of net assets/equity are separately disclosed, reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.**

120. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.

121. The overall change in net assets/equity during a period represents the total amount of surplus or deficit for the period, other revenues and expenses recognized directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.

122. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

123. This Standard requires all items of revenue and expense recognized in a period to be included in surplus or deficit, unless another IPSAS requires otherwise. Other IPSAS require some items (such as revaluation increases and decreases, particular foreign exchange differences) to be recognized directly as changes in net assets/equity. Because it is important to consider all items of revenue and expense in assessing changes in an entity's financial position between two reporting dates, this Standard requires the presentation of a statement of changes in net assets/equity that highlights an entity's total revenue and expenses, including those that are recognized directly in net assets/equity.

124. IPSAS 3 requires retrospective adjustments to reflect changes in accounting policies, to the extent practicable, except when the transitional provisions in another IPSAS require otherwise. IPSAS 3 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of accumulated surpluses or deficits, except when an IPSAS requires retrospective adjustment of another component of net assets/equity. Paragraph 118(d) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity separately disclosed resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

125. The requirements in paragraphs 118 and 119 may be met by using a columnar format that reconciles the opening and closing balances of each element within net assets/equity. An alternative is to present only the items set out in paragraph 118 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 119 are shown in the notes.

125A. Other IPSAS specify whether and when amounts previously recognized in net assets/equity are reclassified to surplus or deficit. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of net assets/equity in the period that the adjustment is reclassified to surplus or deficit. These amounts may have been recognized in net assets/equity as unrealized gains in the current or previous periods. Those unrealized gains must be deducted from net assets/equity in the period in which the realized gains are reclassified to surplus or deficit to avoid including them in the statement of changes in net assets/equity twice.

125B. Reclassification adjustments arise, for example, on disposal of a foreign operation (see IPSAS 4) and when some hedged forecast cash flows affect surplus or deficit (see paragraph 140(d) of IPSAS 41 in relation to cash flow hedges).

125C. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with IPSAS 31 or IPSAS 45 on remeasurements of defined benefit plans recognized in accordance with IPSAS 39. These components are recognized in net assets/equity and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognized (see IPSAS 31 or IPSAS 45). In accordance with IPSAS 41, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of net assets/equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Cash Flow Statement

126. Cash flow information provides users of financial statements with a basis to assess (a) the ability of the entity to generate cash and cash equivalents, and (b) the needs of the entity to utilize those cash flows. IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

127. **The notes shall:**

(a) **Present information about the basis of preparation of the financial statements and the specific accounting policies used, in accordance with paragraphs 132−139;**

(b) **Disclose the information required by IPSAS that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement; and**

(c) **Provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, but that is relevant to an understanding of any of them.**

128. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement shall be cross-referenced to any related information in the notes.**

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

(a) A statement of compliance with IPSAS (see paragraph 28);

(b) A summary of significant accounting policies applied (see paragraph 132);

(c) Supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, in the order in which each statement and each line item is presented; and

(d) Other disclosures, including:

(i) Contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and

(ii) Non-financial disclosures, e.g., the entity's financial risk management objectives and policies (see IPSAS 30).

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

131. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of Accounting Policies

132. **An entity shall disclose in the summary of significant accounting policies:**

(a) **The measurement basis (or bases) used in preparing the financial statements;**

(b) **The extent to which the entity has applied any transitional provisions in any IPSAS; and**

(c) **The other accounting policies used that are relevant to an understanding of the financial statements.**

133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, the historical cost basis, current operational value, cost of fulfillment, or fair value), because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSAS. An example is disclosure of whether an entity applies the current value model or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSAS specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, IPSAS 45 and IPSAS 51 require disclosure of the measurement bases used for classes of property, plant, and equipment or classes of tangible natural resources held for conservation. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When public sector combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

136. An accounting policy may be significant because of the nature of the entity's operation, even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IPSAS, but is selected and applied in accordance with IPSAS 3.

137. **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements.**

138. In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in the financial statements. For example, management makes judgments in determining:

- Whether assets are investment properties;
- Whether agreements for the provision of goods and/or services that involve the use of dedicated assets are leases;
- Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue;
- Whether the substance of the relationship between the reporting entity and other entities indicates that these other entities are controlled by the reporting entity; and,
- Whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

139. Some of the disclosures made in accordance with paragraph 137 are required by other IPSAS. For example, IPSAS 38, *Disclosure of Interests in Other Entities,* requires an entity to disclose the judgments it has made in determining whether it controls another entity. IPSAS 16, *Investment Property*, requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property, and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key Sources of Estimation Uncertainty

140. **An entity shall disclose in the notes information about (a) the key assumptions concerning the future, and (b) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

(a) **Their nature; and**

(b) **Their carrying amount as at the reporting date.**

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of a quoted price in an active market used to measure the following assets and liabilities, future-oriented estimates are necessary to measure (a) the recoverable amount of certain classes of property, plant, and equipment, (b) the effect of technological obsolescence on inventories, and (c) provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management's most difficult, subjective, or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at current operational value or fair value based on a quoted price in an active market for an identical asset or liability. (Such current operational values or fair values might change materially within the next financial year, but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

144. The disclosures in paragraph 140 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

(a) The nature of the assumption or other estimation uncertainty;

(b) The sensitivity of carrying amounts to the methods, assumptions, and estimates underlying their calculation, including the reasons for the sensitivity;

(c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

145. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 140.

146. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

147. The disclosures in paragraph 137 of particular judgments management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 140.

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other IPSAS. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 30 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 45 requires disclosure of measurement techniques and inputs applied in measuring current operational values and fair values of revalued items of property, plant, and equipment.

Capital

148A. **An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital.**

148B. To comply with paragraph 148A the entity discloses the following:

(a) Qualitative information about its objectives, policies, and processes for managing capital, including (but not limited to):

(i) A description of what it manages as capital;

(ii) When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) How it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g., some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g., components arising from cash flow hedges).

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

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

148C. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable Financial Instruments Classified as Net Assets/Equity

148D. **For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):**

(a) **Summary quantitative data about the amount classified as net assets/equity;**

(b) **Its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;**

(c) **The expected cash outflow on redemption or repurchase of that class of financial instruments; and**

(d) **Information about how the expected cash outflow on redemption or repurchase was determined.**

Other Disclosures

149. **An entity shall disclose in the notes:**

(a) **The amount of dividends, or similar distributions, proposed or declared before the financial statements were authorized for issue, but not recognized as a distribution to owners during the period, and the related amount per share; and**

(b) **The amount of any cumulative preference dividends, or similar distributions, not recognized.**

150. **An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:**

(a) **The domicile and legal form of the entity, and the jurisdiction within which it operates;**

(b) **A description of the nature of the entity's operations and principal activities;**

(c) **A reference to the relevant legislation governing the entity's operations;**

(d) **The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable); and**

(e) **If it is a limited life entity, information regarding the length of its life.**

Transitional Provisions

151. [Deleted]

152. [Deleted]

Effective Date

153. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

153A. **Paragraphs 79 and 82 were amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact.**

153B. **IPSAS 28 amended paragraph 150 and inserted paragraphs 7A, 95A, and 148D. An entity shall apply the amendments for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 28 for a period beginning before January 1, 2013, the amendments shall also be applied for that earlier period.**

153C. **IPSAS 30 amended paragraphs 75, 129, and 148 and inserted paragraphs 148A–148C. An entity shall apply the amendments for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 30 for a period beginning before January 1, 2013, the amendments shall also be applied for that earlier period.**

153D. **Paragraph 80 was amended by *Improvements to IPSAS* issued in November 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2012. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2012, it shall disclose that fact.**

153E. **Paragraphs 21, 53 and 54 were amended and paragraph 53A added by *Improvements to IPSAS 2014,* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2015. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2015, it shall disclose that fact.**

153F. **Paragraphs 151, 152 and 154 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

153G. **IPSAS 35 and IPSAS 38 issued in January 2015, amended paragraphs 4, 7, 12, 88(n), 95(d), 97, 103, 118(c), 134, 135 and 139. An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 38.**

153H. **Paragraphs 29, 44, 70, 73, 74, 109 and 116 were amended, and Appendix A, Qualitative Characteristics of Financial Reporting, was deleted by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

153I. **Paragraphs 5, 6 and 12 were deleted and paragraphs 7 and 97 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

153J. **Paragraph 116 was amended by IPSAS 39 issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

153K. **Paragraph 135 was amended by IPSAS 40, *Public Sector Combinations,* issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

153L. **Paragraphs 7, 79, 82, 101, 102 and 138 were amended and paragraphs 125A, 125B and 125C were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

153M. **Paragraphs 88, 94 and 112–115 were amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.**

153N. **Paragraphs 88, 102 and 107 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

153O. **Paragraphs 7, 92, 94, 101, 125C, 134, and 148 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

153P. **Paragraphs 133, 134, 141, and 143 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

153Q. **Paragraphs 50, 88, 94, and 135 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

153R. **Paragraphs 83A, 83B, 86A, 87A, 87B, and 87C were added and paragraphs 70, 80, 82, 84, 85, and 87 were amended by *Improvements to IPSAS, 2023*, issued in April 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026 retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

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

153T. **Paragraphs 88(ba) and 107(ca) were added, and paragraphs 92 and 134 were amended by IPSAS 51, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

154. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal of IPSAS 1 (2000)

155. This Standard supersedes IPSAS 1, *Presentation of Financial Statements*, issued in 2000.

Appendix A

Qualitative Characteristics of Financial Reporting

This Appendix is an integral part of IPSAS 1.

[Deleted]

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

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

Revision of IPSAS 1 as a result of the IASB's General Improvements Project 2003

Background

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

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

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were to "reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 1, issued in January 2000, was based on IAS 1 (revised 1997), which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 1 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Basis for Conclusions is not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Basis for Conclusions on the IASB's website at www.ifrs.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 1 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 1 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Income

BC7. IAS 1 uses the term income, which is not used in IPSAS 1. IPSAS 1 uses revenue, which corresponds to income in the IAS/IFRS. The term income is broader than revenue, encompassing gains in addition to revenue. The IPSAS do not include a definition of income, and introducing such a definition was not part of the improvements project and was not included in ED 26.

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1 IAS were issued by the IASB's predecessor, the IASC. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Extraordinary Items

BC8. IAS 1 prohibits an entity from presenting any item of income or expense as extraordinary items, either on the face of the income statement or in the notes. The IASB concluded that items treated as extraordinary result from the normal business risks faced by an entity, and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement.

BC9. The definition of extraordinary items in IPSAS 1 (2000) differed from the definition included in the previous (1993) version of IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*.[3] This difference reflected the public sector view of what constituted an extraordinary item for public sector entities.

BC10. This Standard does not explicitly preclude the presentation of items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items, either on the face of the income statement or in the notes. The IPSASB is of the view that IPSAS should not prohibit entities from disclosing extraordinary items in the notes to, or on the face of, the statement of financial performance. This is because they believe that the disclosure of information about extraordinary items may be consistent with the objectives and qualitative characteristics of financial reporting. However, other members are of the view that there is not a public sector-specific reason to depart from the requirements of IAS 1 in respect of this matter. They also noted that IPSAS 1 does not preclude the separate presentation of items that are distinct from the ordinary activities of a government, either on the face of the financial statements or in the notes, as long as these items are material. They are not convinced that there is a public sector-specific reason to depart from the IASB's prohibition on presenting "extraordinary items" in the financial statements.

Revision of IPSAS 1 as a result of the IASB's Improvements to IFRS issued in 2008

BC11. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 1 as a result of the IASB's Improvements to IFRS issued in 2009

BC12. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRS* issued by the IASB in April 2009 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Revision of IPSAS 1 as a result of IASB's Improvements to IFRS issued May 2012

BC13. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRS* issued by the IASB in May 2012 and generally concurred that there was no public sector specific reason for not adopting certain amendments. The IPSASB noted some of the amendments impact IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 34, *Interim Financial Reporting* for which equivalent standards do not exist in IPSAS, and therefore such amendments have been excluded. Further, a portion of the amendments propose changes related to presenting a statement of financial position at the beginning of a preceding period for retrospective changes resulting from accounting policy changes, restatements and reclassifications. Presentation of an opening statement of financial position is currently not a requirement of

[3] IPSAS 1 (2000) defined extraordinary items as "revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity." IAS 8 defined "extraordinary items" as "income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly."

IPSAS 1 and introducing changes related to these IASB amendments, is not considered minor and therefore these have been excluded. A further portion of the amendment related to presenting additional comparative information was not considered a minor change and has also been excluded.

Revision of IPSAS 1 as a result of the first four chapters of the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Improvements to IPSAS 2015)*

BC14. Following completion of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) the IPSASB initiated a limited scope project to make changes to IPSAS to reflect the first four chapters of the Conceptual Framework. These chapters address role and authority; objectives and users; qualitative characteristics (QCs) and constraints on information in general purpose financial reports; and the reporting entity. The Conceptual Framework adopted the QC of "faithful representation" rather than "reliability".

BC15. Both the version of IPSAS 1 issued in May 2000 and the revised version of IPSAS 1 issued in December 2006 included an appendix that summarized the QCs and constraints that IPSASB had indirectly adopted. These QCs and constraints were drawn from the former International Accounting Standards Committee's 1989 Conceptual Framework. The IPSASB considered whether this Appendix should be deleted completely or amended to reflect the QCs and constraints in the IPSASB's own Conceptual Framework. The IPSASB decided that it is important that the concepts in the Conceptual Framework are considered directly rather than being mediated through secondary sources. The IPSASB therefore decided to delete Appendix A completely. Consistent with this decision the IPSASB also decided to delete a replication of Appendix A in IPSAS 18, *Segment Reporting*.

BC16. The IPSASB noted that recognition criteria in IPSAS include the words "reliably" or "reliable". Many other IPSAS do not include explicit recognition criteria, but include references to "reliably" and "reliable" in more general guidance on recognition, estimation, allocation and other issues related to measurement. The IPSASB did not consider it appropriate to make piecemeal changes to recognition criteria in advance of a fuller review of recognition criteria and related guidance. The IPSASB therefore decided to include a footnote explaining the meaning of "reliability" in each IPSAS with recognition criteria or related guidance on aspects of measurement. This footnote states that "information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent."

Revision of IPSAS 1 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

Background

BC17. IPSAS 1 included the following definition of a Government Business Enterprise (GBE):

Government Business Enterprise means an entity that has all the following characteristics:

(a) *Is an entity with the power to contract in its own name;*

(b) *Has been assigned the financial and operational authority to carry on a business;*

(c) *Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*

(d) *Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and*

(e) *Is controlled by a public sector entity.*

BC18. The purpose of the definition was to exclude commercial public sector entities that met the above definition of a GBE from the scope of IPSAS. However, feedback received by the IPSASB indicated that there is a wide

range of entities being described as GBEs, some of which clearly do not meet the IPSASB definition of a GBE. There also appeared to be different interpretations of components of the definition.

BC19. To address this problem, in August 2014 the IPSASB issued a Consultation Paper (CP), *The Applicability of IPSAS to Government Business Enterprises and Other Public Sector Entities.* The CP proposed two main approaches to communicate its policy on the public sector entities for which it is developing accounting standards and on GBEs.

BC20. Approach 1 proposed (i) deleting the definition of a GBE; and (ii) providing a high-level description of the characteristics of public sector entities for which IPSAS are intended. This approach had two options: using the IPSASB's current and developing literature (Option 1a) or using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance (Option 1b).

BC21. Under Option 1a, the IPSASB would describe the characteristics of the public sector entities in the following way:

IPSAS are designed to apply to entities that:

(a) Are responsible for the delivery of services[4] to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;

(b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.

BC22. Approach 2 proposed retaining and modifying the definition of a GBE in IPSAS 1 in order to resolve problems in its application, and proposed two options for the definition's modification. Option 2a proposed clarifying the current definition of a GBE and Option 2b proposed narrowing the existing definition of a GBE.

BC23. The IPSASB expressed a unanimous Preliminary View in the CP that Approach 1 was most appropriate because it focuses on the characteristics of public sector entities for which IPSAS are intended. A majority of IPSASB members supported Option 1a because it is a high level, principles-based approach that draws on The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework), and acknowledges the role of regulators and other relevant authorities in determining which entities should apply IPSAS.

BC24. There was strong support from respondents for Option 1a. In general, respondents supported Option 1a for the reasons stated in the previous paragraph. Some respondents also gave additional reasons for supporting Option 1a. These reasons included reliance on the literature of a third-party over which the IPSASB has no control, and the possibility of inconsistency with the IPSASB's own literature, which were identified as risks with Option 1b.

BC25. Respondents' reasons for not supporting Option 1a included:

(a) A lack of resource capacity of regulators in less developed countries, making it difficult to develop detailed criteria for reporting requirements;

(b) Different national regulators using different criteria, which would reduce consistency between jurisdictions; and

(c) The complexities of public sector entities compared with private sector entities that demand a different approach to the determination of reporting requirements.

[4] Services encompasses goods and services.

BC26. In coming to its decision, the IPSASB considered:

(a) The role of regulators in determining the accounting framework for public sector entities in their jurisdiction may vary;

(b) The alignment between IPSAS and GFS reporting guidelines;

(c) The meaning of the term “public sector” with reference to the Preface to the Conceptual Framework;

(d) How holding assets for service potential instead of for cash generation is a distinctive characteristic of public sector entities for which IPSAS are intended; and

(e) Replacing the term government business enterprise with the terms “commercial entities” and “commercial public sector entities”, where appropriate.

The role of regulators and other relevant authorities

BC27. The IPSASB acknowledged that regulators and other relevant authorities might form different views from the IPSASB on the applicability of IPSAS in each jurisdiction. Many jurisdictions develop their own criteria to decide which entities should apply IPSAS. These criteria may vary for legal, economic or fiscal reasons. Therefore, the IPSASB is of the view that a principles-based approach is appropriate, because that approach allows flexibility in each jurisdiction.

Alignment between IPSAS and GFS reporting guidelines

BC28. The IPSASB has a policy of reducing unnecessary differences between IPSAS and GFS reporting guidelines, where appropriate. The IPSASB decided that, on the issue of the applicability of IPSAS, the objectives of financial reporting are better served by developing characteristics that are based on the IPSASB’s current and developing literature over which it has control rather than relying on third-party guidelines.

The meaning of the term “public sector”

BC29. According to paragraph 1.8 of the Conceptual Framework, the term “public sector” includes national, regional, state/provincial and local governments. It also includes international governmental organizations. The IPSASB acknowledges that the public sector also includes other entities that seek a return on equity to investors. IPSAS are not intended to apply to the general purpose financial reports of this type of entity. However, when they are included in consolidated financial statements by a controlling entity that applies IPSAS, appropriate adjustments are made to ensure conformity with the economic entity’s accounting policies. Therefore, the IPSASB is of the view that the term public sector is related to single and group entities as described in the Conceptual Framework.

Assets held for service potential

BC30. The IPSASB is of the view that the description “are responsible for the delivery of services to the public” provided in the *Preface to International Public Sector Accounting Standards* indicates that IPSAS are intended for public sector entities that hold assets primarily for service potential rather than the generation of cash flows.

Commercial entities and commercial public sector entities

BC31. The IPSASB was of the view that only removing the term “GBE” would leave a vacuum in the IPSASB’s literature because the public sector comprises not only entities for which IPSAS are designed, but also commercial entities. Therefore, the IPSASB proposed to replace the term “GBE” with the term “commercial public sector entities” and ”commercial entities”, where appropriate.

Modification of Preface to International Public Sector Accounting Standards

BC32. In August 2015, the IPSASB issued Exposure Draft (ED) 56, *The Applicability of IPSAS.* The ED reflected the IPSASB's decision to delete the definition of a GBE from IPSAS 1 and from other IPSAS and RPGs. The IPSASB considered that this approach best serves the public interest because it removes a definition that has been ambiguous and difficult to implement, and describes the characteristics of public sector entities for which IPSAS are designed. The IPSASB proposed to provide this description in the *Preface to International Public Sector Accounting Standards* and to base that proposed description on the IPSASB's literature. Although not subject to the IPSASB's due process, the IPSASB made the revised characteristics available in the Executive Summary of ED 56.

Responses to the ED

BC33. Overall respondents supported the proposed approach and most of the comments related to:

(a) The characteristics of public sector entities in paragraph 10 of the Preface to IPSAS;

(b) The use of wording "commercial entities" and "commercial public sector entities"; and

(c) Other amendments to IPSASB's literature.

Characteristics of public sector entities in paragraph 10 of the Preface to IPSAS

BC34. The characteristics of public sector entities in paragraph 10 of the Preface to IPSAS have been amended to reflect the IPSASB's agreement with respondents' suggestions to increase consistency with the Conceptual Framework, while retaining a principles-based approach to the description of those characteristics.

BC35. Some respondents questioned whether the reference to "capital providers" in paragraph 10(b) should be amended to "equity providers" to be consistent with terminology in the Conceptual Framework. Other respondents indicated that the reference to "capital providers" is not necessary, as it is clear that entities should not have a profit objective. The IPSASB agreed with this suggestion and decided to delete the reference to "capital providers".

Commercial public sector entities

BC36. In the ED, the IPSASB proposed replacing the term "GBE" with the terms "commercial public sector entities" and "commercial entities". The term "commercial entities" was used for economy of expression in those contexts where the IPSASB considered it clear that the discussion was about the public sector. However, some respondents were of the view that having different terms for the same type of entity might create confusion. The IPSASB decided therefore to replace the term "GBE" with one term - "commercial public sector entities" - and acknowledge that regulators can interpret the term taking account of jurisdictional factors.

Other amendments to IPSASB's literature

BC37. Some respondents suggested focusing IPSAS on the public sector entities for which they are designed by removing the wording "other than GBEs" from the IPSASB literature. The ED had proposed the wording "other than commercial entities". The IPSASB agreed with respondents' suggestion and has removed the wording because it is in accordance with the ED's approach of communicating the public sector entities for which IPSAS are designed in a positive way, rather than focusing attention on entities for which IPSAS are not intended, which include commercial public sector entities.

BC38. Other respondents proposed changes to IPSASB's literature that had previously been discussed, including:

- Provide explanation for borderline cases—Some constituents suggested more explanation about the distinction between "pure" public sector entities and "pure" profit seeking entities. For example, a public

sector entity might not be profit seeking but may have profits. The IPSASB is of view that regulators may decide which entities apply IPSAS.

- Change of objectives may imply change of the applicability of IPSAS—The IPSASB is of the view that regulators have a role to develop the transitional requirements when public sector entities change their accounting framework.

Revision of IPSAS 1 as a result of *Improvements to IPSAS, 2023*

BC39. The IPSASB reviewed the revisions to IAS 1, *Presentation of Financial Statements*, included in *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) and *Non-current Liabilities with Covenants* issued by the IASB in January 2020 and October 2022, respectively, and the IASB's rationale for making these amendments as set out in their Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.

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

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

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

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

Amendments to the definition of material

BC43. During the development of this pronouncement, the IPSASB decided to align the definition of material in IPSAS 1 with the description of materiality in the Conceptual Framework. The IPSASB discussed that this is appropriate, as the Conceptual Framework establishes the concepts to be applied in developing IPSAS Standards. Such amendments include:

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

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

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

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

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

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

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

Amendment to the clarification accompanying the definition of material

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

Other Amendments

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

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

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 1.

Illustrative Financial Statement Structure

IG1. This Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance, as well as for the presentation of changes in net assets/equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of the ways in which the requirements of the Standard for the presentation of the statement of financial position, statement of financial performance, and statement of changes in net assets/equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a defense department are likely to be significantly different from those for a central bank.

IG2. The illustrative statement of financial position shows one way in which a statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

IG3. The financial statements have been prepared for a national government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.

IG4. The examples are not intended to illustrate all aspects of IPSAS. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies, and other explanatory notes.

Public Sector Entity—Statement of Accounting Policies (Extract)

Reporting Entity

These financial statements are for a public sector entity (national government of Country A). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises:

- Central government ministries; and
- Commercial public sector entities.

Basis of Preparation

The financial statements comply with International Public Sector Accounting Standards for the accrual basis of accounting. The measurement base applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

Public Sector Entity—Statement of Financial Position

As at December 31, 20X2

(in thousands of currency units)	**20X2**	**20X1**
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	X	X
	X	X
Non-current assets		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	X	X
Total assets	**X**	**X**
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Social benefits	X	X
Employee benefits	X	X
Superannuation	X	X

(in thousands of currency units)	20X2	20X1
	X	X
Non-current liabilities		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Social benefits	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Total liabilities	X	X
Net assets	**X**	**X**
NET ASSETS/EQUITY		
Capital contributed by other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
Non-controlling interest	X	X
Total net assets/equity	**X**	**X**

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Function)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Other compulsory contributions and levies	X	X
Transfers without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total revenue	**X**	**X**

	20X2	20X1
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social benefits	(X)	(X)
Other social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural, and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	**(X)**	**(X)**
Share of surplus of associates*	X	X
Surplus/(deficit) for the period from continuing operations	X	X
Loss for the period from discontinued operations	(X)	(X)
Surplus/(deficit) for the period	**X**	**X**
Attributable to:		
Owners of the controlling entity	X	X
Non-controlling interests	X	X
	X	X

* This means the share of associates' surplus attributable to owners of the associates, i.e., it is after tax and non-controlling interests in the associates.

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)

(in thousands of currency units)	**20X2**	**20X1**
Revenue		
Taxes	X	X
Other compulsory contributions and levies	X	X
Transfers without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total revenue	**X**	**X**
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Social benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	**(X)**	**(X)**
Share of surplus of associates	X	X
Surplus/(deficit) for the period from continuing operations	(X)	X
Loss for the period from discontinued operations	(X)	(X)
Surplus/(deficit) for the period	(X)	X
Attributable to:		
Owners of the controlling entity	(X)	X
Non-controlling interest	(X)	X

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant, and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X1

(in thousands of currency units)	Attributable to owners of the controlling entity					Non-controlling interest	Total net assets/ equity
	Contributed Capital	Other Reserves [5]	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total		
Balance at December 31, 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Changes in net assets/equity for 20X1							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		X	(X)		X	X	X
Surplus for the period				X	X	X	X
Total recognized revenue and expense for the period		X	(X)	X	X	X	X
Balance at December 31, 20X1 carried forward	X	X	(X)	X	X	X	X
Balance at December 31, 20X1 brought forward	X	X	(X)	X	X	X	X

[5] Other reserves are analyzed into their components, if material.

(in thousands of currency units)	Attributable to owners of the controlling entity					Non-controlling interest	Total net assets/ equity
	Contributed Capital	Other Reserves [5]	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total		
Changes in net assets/equity for 20X2							
Loss on property revaluation		(X)			(X)	(X)	(X)
Gain on revaluation of investments		X			X	X	X
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		(X)	(X)		(X)	(X)	(X)
Deficit for the period				(X)	(X)	(X)	(X)
Total recognized revenue and expense for the period		(X)	(X)	(X)	(X)	(X)	(X)
Balance at December 31, 20X2	X	X	(X)	X	X	X	X

COMPARISON WITH IAS 1

IPSAS 1 is drawn primarily from IAS 1 (2003) and includes amendments made to IAS 1 as part of the *Improvements to IFRS* issued in May 2008 and April 2009 respectively. At the time of initially issuing this Standard, the IPSASB had not considered the applicability of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 1 did not reflect amendments made to IAS 1 consequent upon the issuing of IFRS 5. The IPSASB has subsequently issued IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* in May 2022. Therefore, all amendments made to IAS 1 from the issuance of IFRS 5 are now reflected in IPSAS 1. The main differences between IPSAS 1 and IAS 1 are as follows:

- Discussion on the application of the going concern concept to public sector entities has been included in IPSAS 1 compared to that in IAS 1.
- IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity, other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms “statement of financial performance,” and “net assets/equity” in IPSAS 1. The equivalent terms in IAS 1 are “income statement,” and “equity”.
- IPSAS 1 does not use the term “income,” which in IAS 1 has a broader meaning than the term “revenue.”
- IAS 1 defines “International Financial Reporting Standards (IFRS)” to include IFRS, IAS, and SIC/IFRIC Interpretations. IPSAS 1 does not define “International Public Sector Accounting Standards.”
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 7).
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements. IAS 1 does not include the same commentary (paragraphs 19–20).
- IPSAS 1 uses the phrase “the objective of financial statements set out in this Standard” to replace the equivalent phrase “the objective of financial statement set out in the Framework” in IAS 1. This is because an equivalent Framework in IPSAS does not exist.
- IPSAS 1 contains commentary on timeliness of financial statements, because of the lack of an equivalent Framework in IPSAS (paragraph 69).
- IPSAS 1 does not explicitly preclude the presentation of items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items either on the face of the income statement or in the notes.
- IPSAS 1 contains a transitional provision allowing the non-disclosure of items that have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph 151).

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IPSAS 2, *CASH FLOW STATEMENTS*

Acknowledgment

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

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IPSAS 2, *CASH FLOW STATEMENTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 2, *Cash Flow Statements* was issued in May 2000.

Since then, IPSAS 2 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- IPSAS 42, *Social Benefits* (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 2

Paragraph Affected	How Affected	Affected By
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
8	Amended	IPSAS 35 January 2015
16	Deleted	*The Applicability of IPSAS* April 2016
21	Amended	IPSAS 47 May 2023
22	Amended	*Improvements to IPSAS* January 2010 *Improvements to* IPSAS November 2010 IPSAS 42 January 2019 IPSAS 44 May 2022 IPSAS 45 May 2023

Paragraph Affected	How Affected	Affected By
		IPSAS 47 May 2023
25	Amended	*Improvements to IPSAS* November 2010
26	Amended	IPSAS 43 January 2022
27	Amended	*Improvements to IPSAS* November 2010
30	Amended	*Improvements to IPSAS* November 2010 IPSAS 35 January 2015
36	Amended	IPSAS 4 December 2006
37	Amended	IPSAS 4 December 2006
40[1]	Deleted	IPSAS 3 December 2006 *Improvements to IPSAS* November 2010
41	Deleted	IPSAS 3 December 2006
42	Amended	*Improvements to IPSAS* November 2010
43	Amended	*Improvements to IPSAS* November 2010
47	Amended	*Improvements to IPSAS* November 2010 IPSAS 37 January 2015
48	Amended	IPSAS 37 January 2015
50A	New	IPSAS 35 January 2015
52A	New	IPSAS 35 January 2015
52B	New	IPSAS 35 January 2015
55	Amended	IPSAS 43 January 2022
Heading above paragraph 55A	New	*Improvements to IPSAS* October 2018
55A	New	*Improvements to IPSAS* October 2018
55B	New	*Improvements to IPSAS* October 2018
55C	New	*Improvements to IPSAS* October 2018
55D	New	*Improvements to IPSAS* October 2018
55E	New	*Improvements to IPSAS* October 2018
61	Amended	IPSAS 37 January 2015
63A	New	*Improvements to IPSAS* January 2010
63B	New	*Improvements to IPSAS* November 2010
63C	New	IPSAS 33 January 2015
63D	New	IPSAS 37 January 2015

[1] Subsequent paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
		IPSAS 35 January 2015
63E	New	*The Applicability of IPSAS* April 2016
63F	New	*Improvements to IPSAS* October 2018
63G	New	IPSAS 42 January 2019
63H	New	IPSAS 43 January 2022
63I	New	IPSAS 44 May 2022
63J	New	IPSAS 45 May 2023
63K	New	IPSAS 47 May 2023
64	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
IE	Amended	IPSAS 3 December 2006 IPSAS 42 January 2019 IPSAS 47 May 2023

IPSAS 2, *CASH FLOW STATEMENTS*

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International Public Sector Accounting Standard 2, *Cash Flow Statements*, is set out in the objective and paragraphs 1–64. All the paragraphs have equal authority. IPSAS 2 should be read in the context of its objective, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The cash flow statement identifies (a) the sources of cash inflows, (b) the items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision-making purposes. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities, and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows. The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing, and financing activities.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard, and shall present it as an integral part of its financial statements for each period for which financial statements are presented.**

2. Information about cash flows may be useful to users of an entity's financial statements in (a) assessing the entity's cash flows, (b) assessing the entity's compliance with legislation and regulations (including authorized budgets where appropriate), and (c) making decisions about whether to provide resources to, or enter into transactions with, an entity. They are generally interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a public financial institution. Entities need cash for essentially the same reasons, however different their principal revenue producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard requires all entities to present a cash flow statement.

3. [Deleted]

4. [Deleted]

Benefits of Cash Flow Information

5. Information about the cash flows of an entity is useful in assisting users to predict (a) the future cash requirements of the entity, (b) its ability to generate cash flows in the future, and (c) its ability to fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.

6. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency), and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.

7. Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Definitions

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

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Operating activities are the activities of the entity that are not investing or financing activities.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Cash and Cash Equivalents

9. Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

10. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts that are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

11. Cash flows exclude movements between items that constitute cash or cash equivalents, because these components are part of the cash management of an entity rather than part of its operating, investing, and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Economic Entity

12. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

13. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

14. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

15. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

16. [Deleted]

Net Assets/Equity

17. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Presentation of a Cash Flow Statement

18. **The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities.**

19. An entity presents its cash flows from operating, investing, and financing activities in a manner that is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity, and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

20. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element classified as a financing activity.

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded, for example by:

    (a) Taxes (directly and indirectly);

    (b) [Deleted]

    (c) Other compulsory contributions and levies;

    (d) Transfers; or

    (e) Provision of goods or services to another entity in a binding arrangement.

    The amount of the net cash flows also assists in showing the ability of the entity to maintain its operating capability, repay obligations, pay a dividend or similar distribution to its owner, and make new investments, without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies, and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants, transfers and other appropriations or other budget authority made by central government or other public sector entities;

(d) Cash receipts from royalties, fees, commissions, and other revenue;

(da) Cash payments to beneficiaries of social benefit schemes;

(e) Cash payments to other public sector entities to finance their operations (not including loans);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;

(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinued operations; and

(l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68 of IPSAS 45, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

23. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities, since they relate to the main cash-generating activity of that entity.

24. In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of an entity, and no clear distinction is made for the disposition of those funds between current activities, capital works, and contributed capital. Where an entity is unable to separately identify appropriations or budgetary authorizations into current activities, capital works, and contributed capital, the appropriation or budget authorization should be classified as cash flows from operations, and this fact should be disclosed in the notes to the financial statements.

Investing Activities

25. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources that are intended to contribute to the entity's future service delivery. Only cash outflows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) Cash payments to acquire property, plant, and equipment, intangibles, and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant, and equipment;

(b) Cash receipts from sales of property, plant, and equipment, intangibles, and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) Cash payments for futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) Cash receipts from futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities

26. The separate disclosure of cash flows arising from financing activities is important, because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages, and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed; and

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a lease.

Reporting Cash Flows from Operating Activities

27. **An entity shall report cash flows from operating activities using either:**

(a) **The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**

(b) **The indirect method, whereby surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.**

28. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information that (a) may be useful in estimating future cash flows, and (b) not available

under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) From the accounting records of the entity; or

(b) By adjusting operating revenues, operating expenses (interest and similar revenue, and interest expense and similar charges for a public financial institution), and other items in the statement of financial performance for:

(i) Changes during the period in inventories and operating receivables and payables;

(ii) Other noncash items; and

(iii) Other items for which the cash effects are investing or financing cash flows.

29. Entities reporting cash flows from operating activities using the direct method are also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:

(a) Changes during the period in inventories and operating receivables and payables;

(b) Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and non-controlling interests; and

(c) All other items for which the cash effects are investing or financing cash flows.

(d) [Deleted]

Reporting Cash Flows from Investing and Financing Activities

31. **An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 32 and 35 are reported on a net basis.**

Reporting Cash Flows on a Net Basis

32. **Cash flows arising from the following operating, investing, or financing activities may be reported on a net basis:**

(a) **Cash receipts collected and payments made on behalf of customers, taxpayers, or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and**

(b) **Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**

33. Paragraph 32(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

(a) The collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax-sharing arrangement;

(b) The acceptance and repayment of demand deposits of a public financial institution;

(c) Funds held for customers by an investment or trust entity; and

(d) Rents collected on behalf of, and paid over to, the owners of properties.

34. Examples of cash receipts and payments referred to in paragraph 32(b) are advances made for, and the repayment of:

    (a) The purchase and sale of investments; and

    (b) Other short-term borrowings, for example, those that have a maturity period of three months or less.

35. **Cash flows arising from each of** the **following activities of a public financial institution may be reported on a net basis:**

    (a) **Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**

    (b) **The placement of deposits with, and withdrawal of deposits from, other financial institutions; and**

    (c) **Cash advances and loans made to customers and the repayment of those advances and loans.**

Foreign Currency Cash Flows

36. **Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.**

37. **The cash flows of a foreign controlled entity shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.**

38. Cash flows denominated in a foreign currency are reported in a manner consistent with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign controlled entity. IPSAS 4 does not permit the use of the exchange rate at reporting date when translating the cash flows of a foreign controlled entity.

39. Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates.

Interest and Dividends or Similar Distributions

40. **Cash flows from interest and dividends or similar distributions received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing, or financing activities.**

41. The total amount of interest paid during a period is disclosed in the cash flow statement, whether it has been recognized as an expense in the statement of financial performance or capitalized in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.

42. Interest paid and interest and dividends or similar distributions received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends or similar distributions received may be classified as operating cash flows because they enter into the determination of surplus or deficit. Alternatively, interest paid and interest and dividends or similar distributions received may be classified as financing cash

flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

43. Dividends or similar distributions paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends or similar distributions paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to make these payments out of operating cash flows.

Taxes on Net Surplus

44. **Cash flows arising from taxes on net surplus shall be separately disclosed and shall be classified as cash flows from operating activities, unless they can be specifically identified with financing and investing activities.**

45. Public sector entities are generally exempt from taxes on net surpluses. However, some public sector entities may operate under tax-equivalent regimes, where taxes are levied in the same way as they are on private sector entities.

46. Taxes on net surplus arise from transactions that give rise to cash flows that are classified as operating, investing, or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify, and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity, as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in Controlled Entities, Associates and Joint Ventures

47. When accounting for an investment in an associate, a joint venture, or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.

48. An entity that reports its interest in an associate or a joint venture using the equity method includes in its cash flow statement the cash flows in respect of its investments in an associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

49. **The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units shall be presented separately and classified as investing activities.**

50. **An entity shall disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:**

    (a) **The total purchase or disposal consideration;**

    (b) **The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;**

    (c) **The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and**

    (d) **The amount of the assets and liabilities, other than cash or cash equivalents, recognized by the controlled entity or operating unit acquired or disposed of, summarized by each major category.**

50A. An investment entity, as defined in IPSAS 35, *Consolidated Financial Statements*, need not apply paragraphs 50(c) or 50(d) to an investment in a controlled entity that is required to be measured at fair value through surplus or deficit. A controlling entity that is not itself an investment entity need not apply paragraphs 50(c) or 50(d) to an investment in a controlled investment entity to the extent that investment is measured at fair value through surplus or deficit.

51. The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those of acquisitions.

52. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

52A. Cash flows arising from changes in ownership interests in a controlled entity that do not result in a loss of control shall be classified as cash flows from financing activities, unless the controlled entity is held by an investment entity, as defined in IPSAS 35, or through a controlled investment entity, and is required to be measured at fair value through surplus or deficit.

52B. Changes in ownership interests in a controlled entity that do not result in a loss of control, such as the subsequent purchase or sale by a controlling entity of a controlled entity's equity instruments, are accounted for as equity transactions (see IPSAS 35), unless the controlled entity is held by an investment entity, or through a controlled investment entity, and is required to be measured at fair value through surplus or deficit. Accordingly, the resulting cash flows are classified in the same way as other transactions described in paragraph 26.

53. Assets and liabilities other than cash or cash equivalents of a controlled entity or operating unit acquired or disposed of are only required to be disclosed where the controlled entity or unit had previously recognized those assets or liabilities. For example, where a public sector entity that prepares reports under the cash basis is acquired by another public sector entity, the acquiring entity would not be required to disclose the assets and liabilities (other than cash and cash equivalents) of the entity acquired, as that entity would not have recognized noncash assets or liabilities.

Noncash Transactions

54. **Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**

55. Many investing and financing activities do not have a direct impact on current cash flows, although they do affect the capital and asset structure of an entity. The exclusion of noncash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of noncash transactions are:

(a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a lease;

(b) The conversion of debt to equity.

Changes in Liabilities Arising from Financing Activities

55A. **An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and noncash changes.**

55B. To the extent necessary to satisfy the requirement in paragraph 55A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) Changes from financing cash flows;

(b) Changes arising from obtaining or losing control of controlled entities or other operations;

(c) The effect of changes in foreign exchange rates;

(d) Changes in fair values; and

(e) Other changes.

55C. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities. In addition, the disclosure requirement in paragraph 55A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

55D. One way to fulfil the disclosure requirement in paragraph 55A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 55B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the cash flow statement.

55E. If an entity provides the disclosure required by paragraph 55A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

Components of Cash and Cash Equivalents

56. **An entity shall disclose the components of cash and cash equivalents, and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.**

57. In view of the variety of cash management practices and banking arrangements around the world, and in order to comply with IPSAS 1, an entity discloses the policy that it adopts in determining the composition of cash and cash equivalents.

58. The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other Disclosures

59. **An entity shall disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.**

60. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a

controlled entity that operates in a country where exchange controls or other legal restrictions apply, when the balances are not available for general use by the controlling entity or other controlled entities.

61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include:

(a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and

(b) [Deleted]

(c) The amount and nature of restricted cash balances.

62. Where appropriations or budget authorizations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programs and the government's budgetary information. Refer to IPSAS 1 for a brief discussion of the comparison of actual and budgeted figures.

Effective Date

63. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2001. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2001, it shall disclose that fact.**

63A. **Paragraph 22 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact and apply paragraph 83A of IPSAS 17.**

63B. **Paragraph 25 was amended by *Improvements to IPSAS* issued in November 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2012. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2012, it shall disclose that fact.**

63C. **Paragraph 64 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

63D. **IPSAS 35 and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 8 and 30(b), 47, 48 and 61(b), and added paragraphs 50A, 52A and 52B. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

63E. **Paragraphs 3, 4 and 16 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

63F. **Paragraphs 55A–55E were added by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods.**

63G. **Paragraph 22 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

63H. **Paragraphs 26 and 55 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

63I. **Paragraph 22 was amended by IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

63J. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

63K. **Paragraphs 21 and 22 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

64. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 2.

Revision of IPSAS 2 as a result of the IASB's *Improvements to IFRS* issued in 2009

BC1. The IPSASB reviewed the revisions to IAS 7 included in the Improvements to IFRS issued by the IASB in April 2009 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Revision of IPSAS 2 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

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

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

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

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

Revision of IPSAS 2 as a result of *Improvements to IPSAS, 2018*

BC3. The IPSASB reviewed the revisions to IAS 7 included in the narrow scope amendments titled *Disclosure Initiative* (Amendments to IAS 7) issued by the IASB in January 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments. The IPSASB acknowledged that entities would need time to implement this amendment, and therefore set an effective date for this amendment of January 1, 2021, two years later than the other amendments in *Improvements to IPSAS, 2018.*

Illustrative Examples

These examples accompany, but are not part of, IPSAS 2.

Cash Flow Statement (For an Entity Other Than a Financial Institution)

Direct Method Cash Flow Statement (paragraph 27(a))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2

(in thousands of currency units)	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Social benefits	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	(X)	(X)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	X	X
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	X	X

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

(in thousands of currency units)	**20X2**	**20X1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

(c) *Reconciliation of Liabilities Arising from Financing Activities to Surplus/(Deficit)*

(in thousands of currency units)	**20X2**	**20X1**
Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in social benefits liabilities	X	X
Increase in provisions relating to employee costs	X	X

(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

(d) *Reconciliation of Liabilities Arising from Financing Activities*

	20X1	**Cash flows**	**Non-cash changes**		**20X2**
			Acquisition	**New leases**	
Long-term borrowings	X	X	X	X	X
Lease liabilities	X	X	X	X	X
Long-term debt	X	X	X	X	X

Indirect Method Cash Flow Statement (paragraph 27(b))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2

(in thousands of currency units)	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in social benefits liabilities	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

(in thousands of currency units)	**20X2**	**20X1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

(c) *Reconciliation of Liabilities Arising from Financing Activities*

	20X1	**Cash flows**	**Non-cash changes**		**20X2**
			Acquisition	**New leases**	
Long-term borrowings	X	X	X	X	X
Lease liabilities	X	X	X	X	X
Long-term debt	X	X	X	X	X

Reconciliation of Liabilities Arising from Financing Activities

1. This example illustrates one possible way of providing the disclosures required by paragraphs 55A–55E.
2. The example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IPSAS 1, *Presentation of Financial Statements*.

	20X1	**Cash flows**	**Non-cash changes**			**20X2**
			Acquisition	**Foreign exchange movement**	**Fair value changes**	
Long-term borrowings	X	X	X	X	X	X
Short-term borrowings	X	X	X	X	X	X
Lease liabilities	X	X	X	X	X	X
Assets held to hedge long-term borrowings	X	X	X	X	X	X
Total liabilities from financing activities	X	X	X	X	X	X

COMPARISON WITH IAS 7

IPSAS 2, *Cash Flow Statements* is drawn primarily from IAS 7, *Cash Flow Statements* and includes an amendment made to IAS 7 as part of the *Improvements* to IFRS issued in April 2009. The main differences between IPSAS 2 and IAS 7 are as follows:

- IPSAS 2 uses different terminology, in certain instances, from IAS 7. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” and “net assets/equity” in IPSAS 2. The equivalent terms in IAS 7 are “income,” “income statement,” and “equity.”
- IPSAS 2 contains a different set of definitions of technical terms from IAS 7 (paragraph 8).
- In common with IAS 7, IPSAS 2 allows either the direct or indirect method to be used to present cash flows from operating activities. Where the direct method is used to present cash flows from operating activities, IPSAS 2 encourages disclosure of a reconciliation of surplus or deficit to operating cash flows in the notes to the financial statements (paragraph 29).
- The Illustrative Examples accompanying IPSAS 2 do not include an illustration of a Cash Flow Statement for a financial institution.

IPSAS 3, *ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 8 (Revised December 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 8 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS)® Foundation.

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IPSAS 3, *ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 3.

Since then, IPSAS 3 has been amended by the following IPSAS Accounting Standards:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)

Table of Amended Paragraphs in IPSAS 3

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
5	Deleted	*The Applicability of IPSAS* April 2016
6	Deleted	*The Applicability of IPSAS* April 2016
7	Amended	*Improvements to IPSAS* April 2016 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025 *Definition of Material* October 2025
Heading above paragraph 8	Deleted	*Definition of Material* October 2025

Paragraph Affected	How Affected	Affected By
8	Deleted	*Definition of Material* October 2025
9	Amended	*Improvements to IPSAS* January 2010
10	Amended	*Improvements to IPSAS* January 2010 Improvements to IPSAS April 2016
11	Amended	*Improvements to IPSAS* January 2010
12	Amended	*Improvements to IPSAS* April 2016
13	Deleted	*Improvements to IPSAS* April 2016
14	Amended	*Improvements to IPSAS* January 2010 *Improvements to IPSAS* April 2016
15	Amended	*Improvements to IPSAS* April 2016
17	Amended	*Improvements to IPSAS* April 2016
22	Amended	IPSAS 31 January 2010 IPSAS 45 May 2023 IPSAS 51 January 2026
34	Amended	*Improvements to IPSAS* April 2016
Heading above paragraph 37	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
37	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
37A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
37B	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
Heading above paragraph 39	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
39	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
39A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
Heading above paragraph 40	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
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Paragraph Affected	How Affected	Affected By
43	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
53	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
57	Amended	IPSAS 46 May 2023
59A	New	*Improvements to IPSAS* January 2010
59B	New	IPSAS 33 January 2015
59C	New	*Improvements to IPSAS* April 2016
59D	New	*The Applicability of IPSAS* April 2016
59E	New	IPSAS 45 May 2023
59F	New	IPSAS 46 May 2023
59G	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
59H	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
59I	New	*Definition of Material* October 2025
59J	New	IPSAS 51 January 2026
60	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
Heading above paragraph IG14	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
IG14–IG17	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
Heading and subheading above paragraph IG18	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
IG18–IG19	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
Heading above paragraph IG20	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
IG20–IG21	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025

IPSAS 3, *ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS*

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International Public Sector Accounting Standard 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, is set out in paragraphs 1–61. All the paragraphs have equal authority. IPSAS 3 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3 provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors. This Standard is intended to enhance the relevance and faithful representativeness of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IPSAS 1, *Presentation of Financial Statements*.

Scope

3. **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.**

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard, as they are not relevant for many public sector entities. International or national accounting standards dealing with income taxes contain guidance on the treatment of tax effects.

5. [Deleted]

6. [Deleted]

Definitions

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

   Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

   Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.

   Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

   (a) **The effects of the retrospective application or retrospective restatement are not determinable;**

   (b) **The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or**

   (c) **The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:**

      (i) **Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and**

(ii) **Would have been available when the financial statements for that prior period were authorized for issue from other information.**

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that:

(a) **Was available when financial statements for those periods were authorized for issue; and**

(b) **Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are:

(a) **Applying the new accounting policy to transactions, other events, and conditions occurring after the date as at which the policy is changed; and**

(b) **Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.**

Retrospective application is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement, and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

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

8. [Deleted]

Accounting Policies

Selection and Application of Accounting Policies

9. **When an IPSAS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard.**

10. IPSAS set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and faithfully representative information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSAS to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.

11. IPSAS are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of IPSAS. Guidance that is an integral part of IPSAS is mandatory. Guidance that is not an integral part of IPSAS does not contain requirements for financial statements.

12. **In the absence of an IPSAS that specifically applies to a transaction, other event, or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the accountability and decision-making needs of users, faithfully**

represents the financial position, financial performance, and cash flows of the entity, meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability and takes account of the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics.

13. [Deleted]

14. **In making the judgment, described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in the following order:**

    (a) **The requirements in IPSAS dealing with similar and related issues; and**

    (b) **The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.**

15. **In making the judgment described in paragraph 12, management may also consider (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted public or private sector practices, but only to the extent that these do not conflict with the sources in paragraph 14. Examples of such pronouncements include pronouncements of the IASB, including IFRS, and Interpretations issued by the IASB's IFRS Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).**

Consistency of Accounting Policies

16. **An entity shall select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an IPSAS specifically requires or permits categorization of items for which different policies may be appropriate. If an IPSAS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.**

Changes in Accounting Policies

17. **An entity shall change an accounting policy only if the change:**

    (a) **Is required by an IPSAS; or**

    (b) **Results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance, or cash flows.**

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance, and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria in paragraph 17.

19. **A change from one basis of accounting to another basis of accounting is a change in accounting policy.**

20. **A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy.**

21. **The following are not changes in accounting policies:**

    (a) **The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and**

    (b) **The application of a new accounting policy for transactions, other events, or conditions that did not occur previously or that were immaterial.**

22. **The initial application of a policy to revalue assets in accordance with IPSAS 31, *Intangible Assets*, IPSAS 45, *Property, Plant, and Equipment*, or IPSAS 51, *Tangible Natural Resources Held for Conservation*, is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 31, IPSAS 45, or IPSAS 51, rather than in accordance with this Standard.**

23. Paragraphs 24−36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. **Subject to paragraph 28:**

    (a) **An entity shall account for a change in accounting policy resulting from the initial application of an IPSAS in accordance with the specific transitional provisions, if any, in that Standard; and**

    (b) **When an entity changes an accounting policy upon initial application of an IPSAS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

25. For the purpose of this Standard, early application of a Standard is not a voluntary change in accounting policy.

26. In the absence of an IPSAS that specifically applies to a transaction, other event, or condition, management may, in accordance with paragraph 15, apply an accounting policy from (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted public or private sector practices, but only to the extent that these are consistent with paragraph 15. Examples of such pronouncements include pronouncements of the IASB, including the *Framework for the Preparation and Presentation of Financial Statements*, IFRS, and Interpretations issued by the IFRIC or the former SIC. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective Application

27. **Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

Limitations on Retrospective Application

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**

30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior

period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may be made to another component of net assets/equity (for example, to comply with an IPSAS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities, and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 55–58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

33. **When initial application of an IPSAS (a) has an effect on the current period or any prior period, (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:**

    (a) **The title of the Standard;**

    (b) **When applicable, that the change in accounting policy is made in accordance with its transitional provisions;**

    (c) **The nature of the change in accounting policy;**

    (d) **When applicable, a description of the transitional provisions;**

    (e) **When applicable, the transitional provisions that might have an effect on future periods;**

    (f) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

    (g) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

    (h) **If retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

    Financial statements of subsequent periods need not repeat these disclosures.

34. **When a voluntary change in accounting policy (a) has an effect on the current period or any prior period, (b) would have an effect on that period, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:**

    (a) **The nature of the change in accounting policy;**

    (b) **The reasons why applying the new accounting policy provides faithfully representative and more relevant information;**

    (c) **For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(d) **The amount of the adjustment relating to periods before those presented, to the extent practicable; and**

(e) **If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

35. **When an entity has not applied a new IPSAS that has been issued but is not yet effective, the entity shall disclose:**

(a) **This fact; and**

(b) **Known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.**

36. In complying with paragraph 35, an entity considers disclosing:

(a) The title of the new IPSAS;

(b) The nature of the impending change or changes in accounting policy;

(c) The date by which application of the Standard is required;

(d) The date as at which it plans to apply the Standard initially; and

(e) Either:

(i) A discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or

(ii) If that impact is not known or reasonably estimable, a statement to that effect.

Accounting Estimates

37. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgments or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

(a) Tax revenue due to government;

(b) A loss allowance for expected credit losses, applying IPSAS 41, *Financial Instruments*;

(c) The net realizable value or current operational value of an item of inventory, applying IPSAS 12, *Inventories* and IPSAS 46, *Measurement*, respectively;

(d) The fair value of an asset or liability, applying IPSAS 46;

(e) The depreciation expense for an item of property, plant, and equipment, applying IPSAS 45, *Property, Plant, and Equipment*; and

(f) A provision for obligations, applying IPSAS 19, *Provision, Contingent Liabilities and Contingent Assets*.

37A. An entity uses estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying IPSAS 41), measurement techniques (for example, techniques used to

measure the fair value of an asset or liability applying IPSAS 46), and inputs to develop an accounting estimate.

37B. The term 'estimate' in IPSAS sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability[1].

Changes in Accounting Estimates

39. An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior periods and is not the correction of an error.

39A. The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

Applying Changes in Accounting Estimates

40. A change in the measurement model applied is a change in an accounting policy, and is not a change in an accounting estimate. A change in the measurement basis applied within the current value model is a change in an accounting estimate.

40A. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

41. **The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, shall be recognized prospectively by including it in surplus or deficit in:**

(a) **The period of the change, if the change affects the period only; or**

(b) **The period of the change and future periods, if the change affects both.**

42. **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets/equity item in the period of change.**

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of that change. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in a loss allowance for expected credit losses affects only the current period's surplus or deficit, and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

Disclosure

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

44. **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**

45. **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact.**

Errors

46. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with IPSAS if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47–52).

47. **Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:**

    (a) **Restating the comparative amounts for prior period(s) presented in which the error occurred; or**

    (b) **If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.**

Limitations of Retrospective Restatement

48. **A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

49. **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**

50. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.

52. When it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities, and net assets/equity arising before that date. Paragraphs 55–58 provide guidance on when it is impracticable to correct an error for one or more prior periods.

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

54. **In applying paragraph 47, an entity shall disclose the following:**

(a) **The nature of the prior period error;**

(b) **For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**

(c) **The amount of the correction at the beginning of the earliest prior period presented; and**

(d) **If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56–58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to re-create the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events, or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event, or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event, or condition occurred.

57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:

(a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and

(b) Would have been available when the financial statements for that prior period were authorized for issue;

from other information. For some types of estimates (e.g., a fair value measurement that uses significant unobservable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured, or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying a government building as an investment property (the building was previously classified as property, plant, and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner-occupied office building. In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning costs of pollution

resulting from government operations in accordance with IPSAS 19, it disregards information about an unusually large oil leak from a naval supply ship during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective Date

59. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

59A. **Paragraphs 9, 11, and 14 were amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged.**

59B. **Paragraph 60 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

59C. **Paragraphs 7, 10, 12, 14, 15, 17 and 34 were amended, and paragraph 13 was deleted by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017 it shall disclose that fact.**

59D. **Paragraphs 5 and 6 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

59E. **Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

59F. **Paragraph 57 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

59G. **Paragraph 40A was added and paragraph 40 was amended by Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

59H. **Paragraphs 7, 37, 39, 43, and 53 are amended, paragraphs 37A, 37B, and 39A are added by Part 3 of *Amendments to IPSAS Standard as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. An entity shall apply**

the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.

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

59J. **Paragraph 22 was amended by IPSAS 51, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

60. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal of IPSAS 3 (2000)

61. This Standard supersedes IPSAS 3*, Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*, issued in 2000.

Appendix

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

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

Revision of IPSAS 3 as a result of the IASB's General Improvements Project

Background

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

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS. The Comparison with IAS 8 references the December 2003 version of IAS 8 and not any other.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[2] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 3, issued in January 2000, was based on IAS 8 (Revised 1993), Net Profit or Loss of the Period, Fundamental Errors and Changes in Accounting Policies, which was reissued in December 2003 as IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[3] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 8 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IPSAS 3 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 3 as a result of the IASB's Improvements to IFRS issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 8 included in *the Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

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[2] The International Accounting Standards (IAS) were issued by the IASB's predecessor—the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

[3] The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 3 as a result of the publication of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Improvements to IPSAS 2015)*

BC8. Following the publication of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) the IPSASB initiated a limited scope project to make changes to IPSAS to reflect the first four chapters. These chapters address role and authority; objectives and users; qualitative characteristics (QCs) and constraints on information in general purpose financial reports; and the reporting entity. The IPSASB proposed these amendments in ED 58, *Improvements to IPSAS 2015*.

BC9. Paragraph 12 of IPSAS 3 provides the first level requirement for the development of an accounting policy when there is not an IPSAS that specifically applies to a transaction, other event or condition. The 2006 version of IPSAS 1 specified that management should use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. The IPSASB decided to replace the reference to reliability with faithful representation in order to ensure consistency with the Conceptual Framework. Consistent with its decision not to distinguish fundamental and enhancing QCs the IPSASB decided to acknowledge the other QCs and the constraints on information included in general purpose financial reports in paragraph 12. A respondent to ED 58 considered that references throughout the suite of IPSAS should be modified to refer to the full set of QCs and constraints, The Conceptual Framework states that each of the QCs is integral to, and works with the other QCs, to provide information in general purpose financial reports that is useful for achieving the objectives of financial reporting. However, this interaction does not preclude individual QCs having more or less importance, dependent upon specific circumstances, and therefore the IPSASB concluded that there should not be a reference to all QCs and constraints every time one or more QCs is referenced.

BC10. IPSAS 3 had also listed a number of attributes of reliability, including economic substance, neutrality, prudence, and completeness. The IPSASB considered whether these attributes should be explicitly stated in the revised IPSAS 3. The IPSASB acknowledges the value of these attributes, but noted that whereas they had been specifically referenced and explained in Appendix A to IPSAS 1 they are not specifically identified as QCs in the Conceptual Framework.

BC11. The Conceptual Framework explains that “faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error”, and further that “information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.” Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional QC because it is already embedded in the notion of faithful representation.

BC12. The IPSASB took the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Consequently the IPSASB concluded that there is no need to explicitly refer to economic substance, neutrality, prudence, and completeness in paragraph 12.

BC13. Paragraph 14 provides the sources that management shall refer to, and consider the applicability of, when developing an accounting policy when there is not an IPSAS that specifically applies to a transaction, other event or condition. The IPSASB considered whether management should be directed to the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other IPSAS or the Conceptual Framework. The IPSASB acknowledged that IPSAS have not yet been updated to reflect definitions, recognition and measurement criteria in the Conceptual Framework. However the Conceptual Framework reflects the IPSASB’s most up-to-date thinking and the IPSASB concluded that management should be directed to this source.

BC14. Paragraph 15 permits consideration of the most recent pronouncements of other standard-setting bodies, to the extent that they do not conflict with sources drawn from IPSAS, in making judgments on the development and application of an accounting policy. The IPSASB considered whether it should retain the examples of pronouncements of the International Accounting Standards Board (IASB). Noting that the revision of the IASB's Conceptual Framework had not been completed at the time, the IPSASB took the view that there are differences between the IPSASB's Conceptual Framework and the IASB's developing revision of its Conceptual Framework. Consequently the development and application of accounting policies based on the IASB's Conceptual Framework might not always be appropriate in the public sector. In response to comments by a respondent to ED 58, the IPSASB also reaffirmed that the IPSASB's Conceptual Framework is not subordinate to the IASB's Conceptual Framework. The IPSASB did consider that the other examples of IASB pronouncements in paragraph 15—IFRS, and Interpretations issued by the IASB's IFRS Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC)—are useful and should be retained.

Revision of IPSAS 3 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC15. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

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

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

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

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

Revision of IPSAS 3 as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC16. The IPSASB decided in March 2023 to align IPSAS 3 and IPSAS 45, *Property, Plant, and Equipment*, on how to account for a change between current value measurement bases when an entity elects the current value model as its accounting policy choice in ED 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*.

BC17. During the development of IPSAS 45, the IPSASB decided in September 2022 that an entity choosing to adopt the current value model as its accounting policy choice for subsequent measurement purposes shall measure an item of property, plant, and equipment depending on the primary objective for which the entity holds the asset. Specifically, the IPSASB decided that an item of property, plant, and equipment that an entity holds for its operational capacity shall be measured at current operational value and when held for its financial capacity it shall be measured at fair value.

BC18. The IPSASB discussed the implication of this decision on the requirement in IPSAS 3 to treat a change in measurement basis as a change in accounting policy. IPSAS 45 notes that a change between current value measurement bases, when an entity chooses the current value model as its accounting policy choice, is appropriate when the primary objective for which the entity holds the item of property, plant, and equipment changes from operational capacity to financial capacity, or vice versa.

BC19. The IPSASB decided to amend IPSAS 3 to reflect that a change in measurement model, rather than a change in measurement basis, is a change in accounting policy. When an entity chooses the current value model, instead of the historical cost model, it is making an accounting policy choice that requires an entity to develop an accounting estimate. Because current value measurement bases are accounting estimates, the change

between them does not change such accounting policy choice. It is when an entity changes between measurement models that such accounting policy choice changes.

BC20. In August 2024, the IPSASB published Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, which proposed amending IPSAS 3 to reflect that a change in measurement model, rather than a change in measurement basis, is a change in accounting policy. While respondents supported the proposal, some indicated further clarification is needed on what constitutes a change in measurement basis.

BC21. In responding to constituents' comments, the IPSASB decided to clarify that a change in measurement basis applied within the current value model is a change in an accounting estimate, consistent with paragraph BC19.

Revision of IPSAS 3 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC22. The IPSASB reviewed the revisions to IAS 8, *Basis of Preparation of Financial Statements* (previously titled *Accounting Policies, Changes in Accounting Estimates and Errors*) included in *Definition of Accounting Estimates* (Amendments to IAS 8) issued by the IASB in February 2021, and the IASB's rationale for making these amendments as set out in their Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not adopting these amendments.

BC23. The IPSASB noted an inconsistency in terminology between the IASB and the IPSASB literature, specifically with the term 'measurement techniques'. The IPSASB decided to align the terminology in the IPSAS 3 improvement with IPSAS 46, *Measurement*, thus 'valuation techniques' in IAS 8 was replaced with 'measurement techniques' as used in IPSAS 46, and the umbrella term 'measurement techniques' in IAS 8 is not required in the improvements to IPSAS 3.

BC24. In August 2024, the IPSASB published Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, which proposed adding a definition of accounting estimates and related amendments consistent with the amendments in the IASB's *Definition of Accounting Estimates* (Amendments to IAS 8). The IPSASB decided to proceed with the amendments proposed in Part 3 of ED 90 because the guidance is expected to help entities in the public sector to distinguish between changes in accounting policies and changes in accounting estimates.

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

BC25. During the development of this pronouncement, the IPSASB decided to replace the description of materiality in IPSAS 3 with a cross-reference to IPSAS 1, *Presentation of Financial Statements*, which includes the definition of material and explanatory guidance. This avoids the duplication of the definition of material in IPSAS Standards.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 3.

Retrospective Restatement of Errors

IG1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU[4] 6,500 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2.

IG2. The entity's accounting records for 20X2 show revenue from taxation of CU60,000 (including the CU6,500 taxation that should have been recognized in opening balances), and expenses of CU86,500.

IG3. In 20X1, the entity reported:

	CU
Revenue from taxation	34,000
User charges	3,000
Other operating revenue	30,000
Total revenue	67,000
Expenses	(60,000)
Surplus	7,000

IG4. 20X1 opening accumulated surplus was CU20,000, and closing accumulated surplus was CU27,000.

IG5. The entity had no other revenue or expenses.

IG6. The entity had CU5,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity Statement of Financial Performance

	20X2	(restated) 20X1
	CU	CU
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	40,000	30,000
Total revenue	97,500	73,500
Expenses	(86,500)	(60,000)
Surplus	11,000	13,500

[4] In these examples, monetary amounts are denominated in "currency units" (CU).

Public Sector Entity X Statement of Changes in Equity

	Contributed capital	Accumulated Surpluses	Total
	CU	CU	CU
Balance at 31 December 20X0	5,000	20,000	25,000
Surplus for the year ended December 31, 20X1 as restated	–	13,500	13,500
Balance at 31 December 20X1	5,000	33,500	38,500
Surplus for the year ended 31 December 20X2	–	11,000	11,000
Balance at 31 December 20X2	5,000	44,500	49,500

Extracts from Notes to the Financial Statements

1. Revenue from taxation of CU6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 20X2.

	Effect on 20X1
	CU
Increase revenue	6,500
Increase in surplus	6,500
Increase in debtors	6,500
Increase in net assets/equity	6,500

Change in Accounting Policy with Retrospective Application

IG7. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station that is under construction. In previous periods, the entity had capitalized such costs. The entity has now decided to expense, rather than capitalize them. Management judges that the new policy is preferable, because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable.

IG8. The entity capitalized borrowing costs incurred of CU2,600 during 20X1 and CU5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

IG9. The accounting records for 20X2 show surplus before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20X2).

IG10. The entity has not recognized any depreciation on the power station because it is not yet in use.

IG11. In 20X1, the entity reported:

	CU
Surplus before interest	18,000
Interest expense	–
Surplus	18,000

IG12. 20X1 opening accumulated surpluses was CU20,000 and closing accumulated surpluses was CU38,000.

IG13. The entity had CU10,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity Statement of Financial Performance

	20X2	(restated) 20X1
	CU	CU
Surplus before interest	30,000	18,000
Interest expense	(3,000)	(2,600)
Surplus	27,000	15,400

Public Sector Entity Statement of Changes in Net Assets/Equity

	Contributed capital	(restated) Accumulated Surplus	Total
	CU	CU	CU
Balance at 31 December 20X0 as previously reported	10,000	20,000	30,000
Change in accounting policy with respect to the capitalization of interest (Note 1)	–	(5,200)	(5,200)
Balance at 31 December 20X0 as restated	10,000	14,800	24,800
Surplus for the year ended 31 December 20X1 (restated)	–	15,400	15,400
Balance at 31 December 20X1	10,000	30,200	40,200
Surplus for the year ended 31 December 20X2	–	27,000	27,000
Closing at 31 December 20X2	10,000	57,200	67,200

Extracts from Notes to the Financial Statements

1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station. Previously, the entity capitalized such costs. They are now written off as expenses as incurred. Management judges that this policy provides faithfully representative and more relevant information, because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively, and the comparative statements for 20X1 have been restated. The effect of the change on 20X1 is tabulated below. Opening accumulated surpluses for 20X1 have been reduced by CU5,200, which is the amount of the adjustment relating to periods prior to 20X1.

Effect on 20X1	CU
(Increase) in interest expense	(2,600)
(Decrease) in surplus	(2,600)
Effect on periods prior to 20X1	
(Decrease) in surplus	(5,200)
(Decrease) in assets in the course of construction and in accumulated surplus	(7,800)

IG14. [Deleted]

IG15. [Deleted]

IG16. [Deleted]

IG17. [Deleted]

Applying the Definition of Accounting Estimates—Fair Value of an Investment Property

Fact Pattern

IG18. Entity A owns an investment property that it accounts for by applying the current value model in IPSAS 16, *Investment Property*. Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a measurement technique consistent with the income approach described in IPSAS 46, *Measurement*.

IG19. However, because of changes in market conditions since the previous reporting period, Entity A changes the measurement technique it uses to a measurement technique consistent with the market approach described in IPSAS 46. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting period and, therefore, that IPSAS 46 permits such a change. Entity A has also concluded that the change in the measurement technique is not a correction of a prior period error.

Applying the Definition of Accounting Estimates

IG20. The fair value of the investment property is an accounting estimate because:

(a) The fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a

hypothetical sale or purchase transaction between market participants-accordingly, it cannot be observed directly and must instead be estimated.

(b) The fair value of the investment property is an output of a measurement technique used in applying the accounting policy (current value model).

(c) In developing its estimate of the fair value of the investment property, Entity A uses judgements and assumptions, for example, in:

(i) Selecting the measurement technique that is appropriate in the circumstances; and

(ii) Applying the measurement technique-developing the inputs that market participants would use in applying the measurement technique, such as information generated by market transactions involving comparable assets.

IG21. In this fact pattern, the change is in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value in the current value model—has not changed.

COMPARISON WITH IAS 8

IPSAS 3*, Accounting Policies, Changes in Accounting Estimates and Errors*, is drawn primarily from IAS 8 (2003), *Accounting Policies, Changes in Accounting Estimates and Errors* and includes amendments made to IAS 8 as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 3 and IAS 8 are as follows:

- IPSAS 3 uses different terminology, in certain instances, from IAS 8. The most significant examples are the use of the terms “statement of financial performance,” “accumulated surplus or deficit,” and “net assets/equity” in IPSAS 3. The equivalent terms in IAS 8 are “income statement,” “retained earnings,” and “equity.”
- IPSAS 3 does not use the term “income,” which in IAS 8 has a broader meaning than the term “revenue.”
- IPSAS 3 contains a different set of definitions of technical terms from IAS 8 (paragraph 7).
- IPSAS 3 has a similar hierarchy to IAS 8.
- IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.

IPSAS 4, *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 21 (Revised 2003, as amended in 2005), *The Effects of Changes in Foreign Exchange Rates*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 21 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 4, *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 4.

In April 2008 the IPSASB issued a revised IPSAS 4.

Since then, IPSAS 4 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 48, *Transfer Expenses* (issued May 2023)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 43*, Leases* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41*, Financial Instruments* (issued August 2018)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)

Table of Amended Paragraphs in IPSAS 4

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Amended	IPSAS 29 January 2010 IPSAS 37 January 2015 IPSAS 41 August 2018
4	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
5	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
6	Deleted	*The Applicability of IPSAS* April 2016
7	Deleted	*The Applicability of IPSAS* April 2016
10	Amended	IPSAS 37 January 2015
11	Amended	IPSAS 47 May 2023
13	Amended	IPSAS 37 January 2015
17	Amended	IPSAS 43 January 2022 IPSAS 48 May 2023
21	Amended	IPSAS 37 January 2015
22	Amended	IPSAS 35 January 2015
27	Amended	IPSAS 46 May 2023
28	Amended	IPSAS 45 May 2023
31	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
36	Amended	IPSAS 45 May 2023
38	Amended	IPSAS 37 January 2015
47	Amended	IPSAS 35 January 2015
50	Amended	IPSAS 37 January 2015
51	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015
53	Amended	IPSAS 35 January 2015
55	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015
57	Amended	IPSAS 37 January 2015
57A	New	IPSAS 37 January 2015
57B	New	IPSAS 37 January 2015
57C	New	IPSAS 37 January 2015
57D	New	IPSAS 37 January 2015
58	Amended	IPSAS 37 January 2015
61	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
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68	Deleted	IPSAS 33 January 2015
69	Deleted	IPSAS 33 January 2015
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71A	New	IPSAS 33 January 2015
71B	New	IPSAS 35 January 2015 IPSAS 37 January 2015
71C	New	*The Applicability of IPSAS* April 2016
71D	Amended	*COVID-19: Deferral of Effective Dates* November 2020
71E	New	*Improvements to IPSAS* October 2018
71F	New	IPSAS 43 January 2022
71G	New	IPSAS 45 May 2023
71H	New	IPSAS 46 May 2023
71I	New	IPSAS 47 May 2023
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A2	New	*Improvements to IPSAS* October 2018
A3	New	*Improvements to IPSAS* October 2018
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A5	Amended	*Improvements to IPSAS* October 2018 IPSAS 46 May 2023
A6	New	*Improvements to IPSAS* October 2018
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Paragraph Affected	How Affected	Affected By
A7	New	*Improvements to IPSAS* October 2018
A8	New	*Improvements to IPSAS* October 2018
A9	New	*Improvements to IPSAS* October 2018
Headings above paragraph IE1	New	*Improvements to IPSAS* October 2018
IE1	New	*Improvements to IPSAS* October 2018
Heading above paragraph IE2	New	*Improvements to IPSAS* October 2018
IE2	New	*Improvements to IPSAS* October 2018
IE3	New	*Improvements to IPSAS* October 2018
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IE5	New	*Improvements to IPSAS* October 2018
IE6	New	*Improvements to IPSAS* October 2018
IE7	Amended	*Improvements to IPSAS* October 2018 IPSAS 47 May 2023
IE8	New	*Improvements to IPSAS* October 2018
IE9	New	*Improvements to IPSAS* October 2018
IE10	New	*Improvements to IPSAS* October 2018
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IE11	New	*Improvements to IPSAS* October 2018
IE12	New	*Improvements to IPSAS* October 2018
IE13	New	*Improvements to IPSAS* October 2018
IE14	New	*Improvements to IPSAS* October 2018
IE15	New	*Improvements to IPSAS* October 2018
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IE16	New	*Improvements to IPSAS* October 2018
IE17	New	*Improvements to IPSAS* October 2018
IE18	New	*Improvements to IPSAS* October 2018
IE19	New	*Improvements to IPSAS* October 2018

IPSAS 4, *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

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International Public Sector Accounting Standard 4, *The Effects of Changes in Foreign Exchange Rates*, is set out in paragraphs 1–73. All the paragraphs have equal authority. IPSAS 4 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity, and how to translate financial statements into a presentation currency.

2. The principal issues are (a) which exchange rate(s) to use, and (b) how to report the effects of changes in exchange rates in the financial statements.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:**

   (a) **In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 41, *Financial Instruments*;**

   (b) **In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, or by the equity method; and**

   (c) **In translating an entity's financial performance and financial position into a presentation currency.**

4. IPSAS 41 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of IPSAS 41 (e.g., some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. IPSAS 41 applies to hedge accounting.

6. [Deleted]

7. [Deleted]

8. This Standard applies to the presentation of an entity's financial statements in a foreign currency, and sets out requirements for the resulting financial statements to be described as complying with IPSAS. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

9. This Standard does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see IPSAS 2, *Cash Flow Statements*).

Definitions

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

Closing rate is the spot exchange rate at the reporting date.

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a controlled entity, associate, joint arrangement, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets/equity of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

    (a) The currency:

        (i) That revenue is raised from, such as taxes, grants, transfers, and fines;

        (ii) That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

        (iii) Of the country whose competitive forces and regulations mainly determine the sale prices of its goods and services.

    (b) The currency that mainly influences labor, material, and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).

12. The following factors may also provide evidence of an entity's functional currency:

    (a) The currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated.

    (b) The currency in which receipts from operating activities are usually retained.

13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate, or joint arrangement):

    (a) Whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defense has a number of overseas bases that conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity, with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university that operates under the management

and direction of the domestic campus. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incur expenses, generate revenue, and perhaps arrange borrowings, all substantially in its local currency. Some examples of government-owned foreign operations that may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards, and broadcasting operations. Such entities may be established as commercial public sector entities.

(b) Whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(c) Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(d) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events, and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the indicators in paragraphs 12 and 13, which are designed to provide additional supporting evidence to determine an entity's functional currency.

15. An entity's functional currency reflects the underlying transactions, events, and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events, and conditions.

16. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IPSAS 10, *Financial Reporting in Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with IPSAS 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; lease liabilities; and cash dividends or similar distributions that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services; transfer right assets; goodwill; intangible assets; inventories; property, plant, and equipment; right-of-use assets; and provisions that are to be settled by the delivery of a non-monetary asset.

Net Investment in a Foreign Operation

18. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 37 and 38. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

19. The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 18 may be any controlled entity of the economic entity. For example, an entity has two controlled entities, A and B. Controlled entity B is a foreign operation. Controlled entity A grants a loan to controlled entity B.

Controlled entity A's loan receivable from controlled entity B would be part of the controlled entity A's net investment in controlled entity B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if controlled entity A were itself a foreign operation.

Summary of the Approach Required by This Standard

20. In preparing financial statements, each entity – whether a stand-alone entity, an entity with foreign operations (such as a controlling entity), or a foreign operation (such as a controlled entity or branch) – determines its functional currency in accordance with paragraphs 11−16. The entity translates foreign currency items into its functional currency, and reports the effects of such translation in accordance with paragraphs 23–42 and 59.

21. Many reporting entities comprise a number of individual entities (e.g., an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the financial performance and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The financial performance and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 43–59.

22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 34, *Separate Financial Statements*, to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs 43–59.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

23. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

    (a) Buys or sells goods or services whose price is denominated in a foreign currency;

    (b) Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

    (c) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

24. **A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.**

25. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

26. Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in IPSAS 2. Although these changes are not

cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing, and financing activities, and include the differences, if any, if those cash flows had been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

27. **At each reporting date:**

    (a) **Foreign currency monetary items shall be translated using the closing rate;**

    (b) **Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and**

    (c) **Non-monetary items that are measured at fair value or current operational value in a foreign currency shall be translated using the exchange rates at the date when the fair value or current operational value was measured.**

28. The carrying amount of an item is determined in conjunction with other relevant IPSAS. For example, property, plant, and equipment may be measured in terms of historical cost, current operational value or fair value in accordance with IPSAS 45, *Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost, current operational value or fair value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

29. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realizable value in accordance with IPSAS 12, *Inventories*. Similarly, in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*, the carrying amount of a non-cash generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

    (a) The cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost); and

    (b) The net realizable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g., the closing rate at the reporting date).

    The effect of this comparison may be that an impairment loss is recognized in the functional currency, but would not be recognized in the foreign currency, or vice versa.

30. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

31. As noted in paragraph 5, this Standard does not deal with hedge accounting for foreign currency items. Guidance in relation to hedge accounting, including the criteria for when to use hedge accounting, can be found in IPSAS 41.

32. **Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the**

period or in previous financial statements, shall be recognized in surplus or deficit in the period in which they arise, except as described in paragraph 37.

33. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.

34. The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 26.

35. **When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.**

36. Other IPSAS require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS 45 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

37. **Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 18) shall be recognized in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g., consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognized initially in a separate component of net assets/equity, and recognized in surplus or deficit on disposal of the net investment in accordance with paragraph 57.**

38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, or accounted for using the equity method).

39. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 23−30. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

40. **When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.**

41. As noted in paragraph 15, the functional currency of an entity reflects the underlying transactions, events, and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events, and conditions. For example, a change in the currency that mainly influences the sales prices or the provision of goods and services may lead to a change in an entity's functional currency.

42. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 37 and 44(c) are not recognized in surplus or deficit until the disposal of the operation.

Use of a Presentation Currency Other than the Functional Currency

Translation to the Presentation Currency

43. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its financial performance and financial position into the presentation currency. For example, when an economic entity, such as an international organization, contains individual entities with different functional currencies, the financial performance and financial position of each entity are expressed in a common currency, so that consolidated financial statements may be presented. For national or state/provincial governments, the presentation currency is normally determined by the ministry of finance (or similar authority), or established in legislation.

44. **The financial performance and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

    (a) **Assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position;**

    (b) **Revenue and expenses for each statement of financial performance (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and**

    (c) **All resulting exchange differences shall be recognized as a separate component of net assets/equity.**

45. In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation into its cash flow statement, the reporting entity shall comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a controlled entity that satisfies the definition of a foreign operation shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the cash flows. IPSAS 2 also outlines the presentation of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

46. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

47. The exchange differences referred to in paragraph 44(c) result from:

(a) Translating revenue and expenses at the exchange rates at the dates of the transactions, and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus or deficit, and on those recognized directly in net assets/equity.

(b) Translating the opening net assets/equity at a closing rate that differs from the previous closing rate.

These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, non-controlling interests in the consolidated statement of financial position.

48. **The financial performance and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

(a) **All amounts (i.e., assets, liabilities, net assets/equity items, revenue, and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that**

(b) **When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e., not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

49. **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IPSAS 10 before applying the translation method set out in paragraph 48, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 48(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IPSAS 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a Foreign Operation

50. Paragraphs 51–56, in addition to paragraphs 43–49, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, or the equity method.

51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 35, *Consolidated Financial Statements*.)

52. However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item (a) represents a commitment to convert one currency into another, and (b) exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference continues to be recognized in surplus or deficit or, if it arises from the circumstances described in paragraph 37, it is classified as net assets/equity until the disposal of the foreign operation.

53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's

financial statements. IPSAS 35 specifies requirements for when the reporting period of the controlling entity is different from that of a controlled entity.

54. When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.

55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 35. The same approach is used in applying the equity method to associates and joint ventures in accordance with IPSAS 36, *Investments in Associates and Joint Ventures*.

56. **Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 44 and 48.**

Disposal or Partial Disposal of a Foreign Operation

57. **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation and accumulated in a separate component of net assets/equity shall be reclassified from net assets/equity to surplus or deficit when the gain or loss on disposal is recognized (see IPSAS 1, *Presentation of Financial Statements).***

57A. In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:

(a) When the partial disposal involves the loss of control of a controlled entity that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former controlled entity after the partial disposal; and

(b) When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

57B. On disposal of a controlled entity that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be transferred directly to accumulated surplus/deficit.

57C. **On the partial disposal of a controlled entity that includes a foreign operation, the entity shall reattribute the proportionate share of the cumulative amount of the exchange differences accumulated in a separate category of net assets/equity to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall transfer to accumulated surplus/deficit only the proportionate share of the cumulative amount of the exchange differences accumulated in net assets/equity.**

57D. A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 57A that are accounted for as disposals.

58. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital, or abandonment of all or part of that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. A writedown of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognized by the entity

holding the interest, does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a writedown.

Tax Effects of Exchange Differences

59. For reporting entities subject to income taxes, guidance on the treatment of (a) tax effects associated with the gains and losses on foreign currency transactions, and (b) exchange differences arising on translating the financial performance and financial position of an entity (including a foreign operation) into a different currency, can be found in the relevant international or national accounting standards dealing with income taxes.

Disclosure

60. **In paragraphs 62 and 64–66, references to "functional currency" apply, in the case of an economic entity, to the functional currency of the controlling entity.**

61. **The entity shall disclose:**

    (a) **The amount of exchange differences recognized in surplus or deficit, except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with IPSAS 41; and**

    (b) **Net exchange differences classified in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

62. **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**

63. **When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**

64. **When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with IPSAS only if they comply with all the requirements of each applicable Standard, including the translation method set out in paragraphs 44 and 48.**

65. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 64. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with IPSAS and the disclosures set out in paragraph 66 are required.

66. **When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 64 are not met, it shall:**

    (a) **Clearly identify the information as supplementary information, to distinguish it from the information that complies with IPSAS;**

    (b) **Disclose the currency in which the supplementary information is displayed; and**

    (c) **Disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Transitional Provisions

First-time Adoption of Accrual Accounting

67. [Deleted]

68. [Deleted]

69. [Deleted]

70. [Deleted]

Foreign Currency Transactions and Advance Consideration (Amendments made by *Improvements to IPSAS*, 2018)

70A. On initial application, an entity shall apply the requirements of Appendix A either:

(a) Retrospectively applying IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) Prospectively to all assets, expenses and revenue in the scope of Appendix A initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies Appendix A; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies Appendix A.

70B. An entity that applies paragraph 70A(b) shall, on initial application, apply Appendix A to assets, expenses and revenue initially recognized on or after the beginning of the reporting period in paragraph 70A(b)(i) or (ii) for which the entity has recognized non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

Effective Date

71. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2010. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2010, it shall disclose that fact.**

71A. **Paragraphs 67, 68, 69, 70 and 72 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

71B. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50, 51, 53, 55, 57 and 58 and added paragraphs 57A, 57B, 57C and 57D. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

71C. **Paragraphs 6 and 7 were deleted and paragraph 13 was amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

71D. **Paragraphs 3, 4, 5, 31 and 61 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1,**

2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.

71E. **Paragraphs 70A and 70B, and Appendix A (paragraphs A1–A9) were added by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2019, it shall disclose that fact.**

71F. **Paragraph 17 was amended by IPSAS 43, Leases issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

71G. **Paragraphs 28 and 36 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

71H. **Paragraphs 27 and A5 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

71I. **Paragraph 11 was amended by IPSAS 47, *Revenue* issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

71J. **Paragraph 17 was amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 48 at the same time.**

72. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal of IPSAS 4 (2006)

73. This Standard supersedes IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, issued in 2006.

Appendix A

Foreign Currency Transactions and Advance Consideration

This Appendix is an integral part of IPSAS 4.

Introduction

A1. Paragraph 24 of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 25 of IPSAS 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS.

A2. When an entity pays or receives consideration in advance in a foreign currency, it generally recognizes a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or revenue. The related asset, expense or revenue (or part of it) is the amount recognized applying relevant IPSAS, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

A3. This Appendix clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue when an entity has received or paid advance consideration in a foreign currency.

Scope

A4. This Appendix applies to a foreign currency transaction (or part of it) when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or revenue (or part of it).

A5. This Appendix does not apply when an entity measures the related asset, expense or revenue on initial recognition:

(a) At fair value or current operational value; or

(b) At the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IPSAS 40, *Public Sector Combinations*).

A6. An entity is not required to apply this Appendix to:

(a) Income taxes; or

(b) Insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

Application of IPSAS 4 to Foreign Currency Transactions and Advance Consideration

A7. This Appendix addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

A8. Applying paragraphs 24–25 of IPSAS 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

A9. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Illustrative Examples

These Illustrative Examples accompany, but are not part of, IPSAS 4.

Foreign Currency Transactions and Advance Consideration

In these Illustrative Examples, foreign currency amounts are 'Foreign Currency' (FC) and functional currency amounts are 'Local Currency' (LC).

IE1. The objective of these examples is to illustrate how an entity determines the date of the transaction when it recognizes a non-monetary asset or non-monetary liability arising from advance consideration in a foreign currency before it recognizes the related asset, expense or revenue (or part of it) applying relevant IPSAS.

Example 1—A Single Advance Payment for the Purchase of a Single Item of Property, Plant and Equipment

IE2. On March 1, 20X1, Entity A entered into a contract with a supplier to purchase a machine for use in its operations. Under the terms of the contract, Entity A pays the supplier a fixed purchase price of FC1,000 on April 1, 20X1. On April 15, 20X1, Entity A takes delivery of the machine.

IE3. Entity A initially recognizes a non-monetary asset translating FC1,000 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on April 1, 20X1. Applying paragraph 27(b) of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, Entity A does not update the translated amount of that non-monetary asset.

IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant and equipment applying IPSAS 45, *Property, Plant, and Equipment*. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1 20X1 (the date of initial recognition of the non-monetary asset).

Example 2—Multiple Receipts for Revenue Recognized at a Single Point in Time

IE5. On June 1, 20X2, Entity B entered into a contract with a customer to deliver goods on September 1, 20X2. The total fixed contract price is an amount of FC100, of which FC40 is due and received on August 1, 20X2 and the balance is receivable on September 30, 20X2.

IE6. Entity B initially recognizes a non-monetary contract liability translating FC40 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on August 1, 20X2. Applying paragraph 27(b) of IPSAS 4, Entity B does not update the translated amount of that non-monetary liability.

IE7. Applying IPSAS 47, *Revenue*, Entity B recognizes revenue on September 1, 20X2, the date on which it transfers the goods to the customer, thereby satisfying its compliance obligation in the contract.

IE8. Entity B determines that the date of the transaction for the revenue relating to the advance consideration of FC40 is August 1, 20X2. Applying paragraph 25 of IPSAS 4, Entity B determines that the date of the transaction for the remainder of the revenue is September 1, 20X2.

IE9. On September 1, 20X2, Entity B:

(a) Derecognizes the contract liability of FC40 and recognizes revenue using the exchange rate on August 1, 20X2; and

(b) Recognizes revenue of FC60 and a corresponding receivable using the exchange rate on that date (September 1 20X2).

IE10. The receivable of FC60 recognized on September 1, 20X2 is a monetary item. Entity B updates the translated amount of the receivable until the receivable is settled.

Example 3—Multiple Payments for Purchases of Services Over a Period of Time

IE11. On May 1 20X3, Entity C entered into a contract with a supplier for services. The supplier will provide the services to Entity C evenly over the period from July 1, 20X3 to December 31 20X3. The contract requires Entity C to pay the supplier FC200 on June 15, 20X3 and FC400 on December 31, 20X3. Entity C has determined that, for this contract, the payment of FC200 on June 15 20X3 relates to the services to be received in the period July 1–August 31, 20X3, and the payment of FC400 on December 31, 20X3 relates to the services to be received in the period September 1–December 31, 20X3.

IE12. Entity C initially recognizes a non-monetary asset translating FC200 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on June 15, 20X3.

IE13. In the period July 1–August 31, 20X3, Entity C derecognizes the non-monetary asset and recognizes an expense of FC200 in surplus or deficit as it receives the services from the supplier. Entity C determines that the date of the transaction for the expense related to the advance consideration of FC200 is June 15, 20X3 (the date of initial recognition of the non-monetary asset).

IE14. In the period September 1–December 31, 20X3, Entity C initially recognizes the expense in surplus or deficit as it receives the services from the supplier. In principle, the dates of the transaction are each day in the period September 1–December 31, 20X3. However, if exchange rates do not fluctuate significantly, Entity C may use a rate that approximates the actual rates as permitted by paragraph 25 of IPSAS 4. If that is the case, Entity C may, for example, translate each month's expense of FC100 (FC400 ÷ 4) into its functional currency using the average exchange rate for each month for the period September 1–December 31, 20X3.

IE15. As Entity C recognizes the expense in the period September 1–December 31, 20X3, it recognizes a corresponding liability in respect of its obligation to pay the supplier. The liability is a monetary item. Entity C updates the translated amount of the liability until the liability is settled.

Example 4—Multiple Receipts for Revenue Recognized at Multiple Points in Time

IE16. On January 1, 20X4, Entity D enters into a contract to sell two products to a customer. Entity D transfers one product on March 1, 20X4 and the second on June 1 20X4. As required by the contract, the customer pays a fixed purchase price of FC1,000, of which FC200 is due and received in advance on January 31, 20X4 and the balance is due and received on June 1, 20X4.

IE17. The following facts are relevant:

(a) The price of the first product is FC450 and the price of the second product is FC550.

(b) Entity D has determined that, for this contract, the consideration of FC200 received on January 31, 20X4 relates to the first product transferred on March 1, 20X4. On transfer of that product to the customer, Entity D has an unconditional right to FC250 of the remaining consideration.

IE18. The spot exchange rates are:

Date	**Spot exchange rate FC:LC**
January 31, 20X4	1:1.5
March 1, 20X4	1:1.7
June 1, 20X4	1:1.9

IE19. The following journal entries illustrate how Entity D accounts for the foreign currency aspects of the contract:

(a) Entity D receives the advance payment of FC200 on January 31, 20X4, which it translates into its functional currency using the exchange rate at January 31, 20X4.

Dr Cash (FC200)	LC300	
Cr Contract liability (FC200)		LC300

(b) Applying paragraph 27(b) of IPSAS 4, Entity D does not update the translated amount of the non-monetary contract liability.

(c) Entity D transfers the first product with a price of FC450 on March 1, 20X4. Entity D derecognizes the contract liability and recognizes revenue of LC300. Entity D recognizes the remaining revenue of FC250 relating to the first product and a corresponding receivable, both of which it translates at the exchange rate at the date that it initially recognizes the remaining revenue of FC250, i.e., March 1, 20X4.

Dr Contract liability (FC200)	LC300	
Dr Receivable (FC250)	LC425	
Cr Revenue (FC450)		LC725

(d) The receivable of FC250 is a monetary item. Entity D updates the translated amount of the receivable until the receivable is settled (June 1, 20X4). At June 1, 20X4, the receivable of FC250 is equivalent to LC475. As required by paragraph 32 of IPSAS 4, Entity D recognizes an exchange gain of LC50 in surplus or deficit.

Dr Receivable	LC50	
Cr Foreign exchange gain		LC50

(e) Entity D transfers the second product with a price of FC550 on June 1, 20X4. Entity D recognizes revenue of FC550 using the exchange rate at the date of the transaction, which is the date that Entity D first recognizes this part of the transaction in its financial statements, i.e., June 1, 20X4.

(f) Entity D also receives the remaining consideration of FC800 on June 1, 20X4. FC250 of the consideration received settles the receivable of FC250 arising on the transfer of the first product. Entity D translates the cash at the exchange rate at June 1, 20X4.

Dr Cash (FC800)	LC1,520	
Cr Receivable (FC250)		LC475
Cr Revenue (FC550)		LC1,045

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 4.

Background

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

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS. The Comparison with IAS 21 references only the version of IAS 21 that was revised in 2003 and amended in 2005.[1]

BC3. In May 2000, the IPSASB's predecessor, the Public Sector Committee (PSC), [2] issued the first version of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, which was based on IAS 21, *The Effects of Changes in Foreign Exchange Rates* (1993). In December 2006, the IPSASB revised IPSAS 4, which was based on IAS 21 (Revised 2003), as part of its General Improvements Project. In December 2005, the IASB issued an amendment to IAS 21 (published as *Net Investment in a Foreign Operation*.)

BC4. In early 2007, the IPSASB initiated a continuous improvements project to update existing IPSAS to be converged with the latest related IFRS to the extent appropriate for the public sector. As part of the project, the IPSASB reviewed the IASB's amendment to IAS 21 issued in December 2005 and generally concurred with the IASB's reasons for amending the IAS and with the amendment made. (The IASB's Basis for Conclusions as a result of the amendment is not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Basis for Conclusions on the IASB's website at http://www.iasb.org).

BC5. IAS 21 has been further amended as a consequence of IFRS and revised IAS issued after December 2005. IPSAS 4 does not include the consequential amendments arising from IFRS or revised IAS issued after December 2005. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS and the revisions to those IAS to public sector entities.

Revision of IPSAS 4 as a result of the IPSASB's The Applicability of IPSAS, issued in April 2016

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

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

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

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

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1 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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

Revision of IPSAS 4 as a result of *Improvements to IPSAS*, 2018

BC7. The IPSASB reviewed the requirements of IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, issued by the IASB in December 2016, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 4.

COMPARISON WITH IAS 21

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* is drawn primarily from IAS 21, *The Effects of Changes in Foreign Exchange Rates* (revised in 2003, as amended in 2005). The main differences between IPSAS 4 and IAS 21 are as follows:

- IPSAS 4 uses different terminology, in certain instances, from IAS 21. The most significant examples are the use of the terms “revenue,” “economic entity,” “statement of financial performance,” and “net assets/equity” in IPSAS 4. The equivalent terms in IAS 21 are “income,” “group,” “statement of comprehensive income,” and “equity.”

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IPSAS 5, *BORROWING COSTS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 23, *Borrowing Costs*, (Revised 1993), published by the International Accounting Standards Board (IASB®). Extracts from IAS 23 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 5, *BORROWING COSTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 5, *Borrowing Costs* was issued in May 2000.

Since then, IPSAS 5 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance* (issued November 2021)
- COVID-19: Deferral of Effective Dates (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)

Table of Amended Paragraphs in IPSAS 5

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
6	Amended	*Improvements to IPSAS* January 2020 IPSAS 32 October 2011 IPSAS 43 January 2022
11	Deleted	*The Applicability of IPSAS* April 2016
19	Amended	*Improvements to IPSAS* April 2016
25	Amended	*Improvements to IPSAS* October 2018
26	Amended	IPSAS 47 May 2023
41	Deleted	IPSAS 33 January 2015
41A	New	*Improvements to IPSAS* October 2018
42A	New	IPSAS 32 October 2011
42B	New	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
42C	New	*The Applicability of IPSAS* April 2016
42D	New	*Improvements to IPSAS* October 2018
42E	Amended	*COVID-19: Deferral of Effective Dates* November 2020
42F	New	IPSAS 43 January 2022
42G	New	IPSAS 47 May 2023
43	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
A.1	New	*Amendments to IPSAS 5* November 2021
A.2	New	*Amendments to IPSAS 5* November 2021
A.3	New	*Amendments to IPSAS 5* November 2021
A.4	New	*Amendments to IPSAS 5* November 2021
A.5	New	*Amendments to IPSAS 5* November 2021
A.6	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE1	New	*Amendments to IPSAS 5* November 2021
IE1	New	*Amendments to IPSAS 5* November 2021
IE2	New	*Amendments to IPSAS 5* November 2021
IE3	New	*Amendments to IPSAS 5* November 2021
IE4	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE5	New	*Amendments to IPSAS 5* November 2021
IE5	New	*Amendments to IPSAS 5* November 2021
IE6	New	*Amendments to IPSAS 5* November 2021
IE7	New	*Amendments to IPSAS 5* November 2021
IE8	New	*Amendments to IPSAS 5* November 2021
IE9	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE10	New	*Amendments to IPSAS 5* November 2021
IE10	New	*Amendments to IPSAS 5* November 2021
IE11	New	*Amendments to IPSAS 5* November 2021
IE12	New	*Amendments to IPSAS 5* November 2021
IE13	New	*Amendments to IPSAS 5* November 2021
Heading above paragraph IE14	New	*Amendments to IPSAS 5* November 2021

Paragraph Affected	How Affected	Affected By
IE14	New	*Amendments to IPSAS 5* November 2021
IE15	New	*Amendments to IPSAS 5* November 2021
IE16	New	*Amendments to IPSAS 5* November 2021

IPSAS 5, *BORROWING COSTS*

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International Public Sector Accounting Standard 5, *Borrowing Costs*, is set out in the objective and paragraphs 1–43. All the paragraphs have equal authority. IPSAS 5 should be read in the context of its objective, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

This Standard prescribes the accounting treatment for borrowing costs. This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Scope

1. **This Standard shall be applied in accounting for borrowing costs.**

2. [Deleted]

3. [Deleted]

4. This Standard does not deal with the actual or imputed cost of net assets/equity. Where jurisdictions apply a capital charge to individual entities, judgment will need to be exercised to determine whether the charge meets the definition of borrowing costs, or whether it should be treated as an actual or imputed cost of net assets/equity.

Definitions

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

   Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

   Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

   Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined* Terms published separately.

Borrowing Costs

6. Borrowing costs may include:

   (a) Interest expense calculated using the effective interest method as described in IPSAS 41, *Financial Instruments*;

   (b) [Deleted]

   (c) [Deleted]

   (d) Interest in respect of leases liabilities and service concession arrangements; and

   (e) Exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

Economic Entity

7. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

8. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

9. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

10. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying "future economic benefits." To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

11. [Deleted]

Net Assets/Equity

12. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Qualifying Assets

13. Examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale. Other investments, and those assets that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Borrowing Costs—Benchmark Treatment

Recognition

14. **Borrowing costs shall be recognized as an expense in the period in which they are incurred**.

15. Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied.

Disclosure

16. **The financial statements shall disclose the accounting policy adopted for borrowing costs.**

Borrowing Costs—Allowed Alternative Treatment

Recognition

17. **Borrowing costs shall be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized in accordance with paragraph 18.**

18. **Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization shall be determined in accordance with this Standard.**

19. Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction, or production of an asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when (a) it is probable that they will result in future economic

benefits or service potential to the entity, and (b) the costs can be measured reliably[1]. Other borrowing costs are recognized as an expense in the period in which they are incurred.

20. **Where an entity adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity.**

Borrowing Costs Eligible for Capitalization

21. The borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

22. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset, and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is coordinated centrally. Difficulties also arise when an economic entity uses a range of debt instruments to borrow funds at varying rates of interest, and transfers those funds on various bases to other entities in the economic entity. Funds that have been borrowed centrally may be transferred to other entities within the economic entity as a loan, a grant, or a capital injection. Such transfers may be interest-free, or require that only a portion of the actual interest cost be recovered. Other complications arise (a) through the use of loans denominated in or linked to foreign currencies, (b) when the economic entity operates in highly inflationary economies, and (c) from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult, and the exercise of judgment is required.

23. **To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings.**

24. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for outlays on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their outlay on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

25. **To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.**

26. Only those borrowing costs applicable to the borrowings of the entity may be capitalized. When a controlling entity borrows funds that are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalize only those borrowing costs which it itself has incurred. Where a

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

controlled entity receives an interest-free capital contribution or capital transfer, it will not incur any borrowing costs, and consequently will not capitalize any such costs.

27. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalize that portion of borrowing costs which it itself has incurred. In the financial statements of the economic entity, the full amount of borrowing costs can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.

28. When a controlling entity has transferred funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalization of borrowing costs. However, if the economic entity met the criteria for capitalization of borrowing costs, it would be able to capitalize the borrowing costs to the qualifying asset in its financial statements.

29. In some circumstances, it is appropriate to include all borrowings of the controlling entity and its controlled entities when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each controlled entity to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount

30. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realizable value, the carrying amount is written down or written off in accordance with the requirements of IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. In certain circumstances, the amount of the write-down or write off is written back in accordance with those other standards.

Commencement of Capitalization

31. **The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when:**

    (a) **Outlays for the asset are being incurred;**

    (b) **Borrowing costs are being incurred; and**

    (c) **Activities that are necessary to prepare the asset for its intended use or sale are in progress.**

32. Outlays on a qualifying asset include only those outlays that have resulted in payments of cash, transfers of other assets, or the assumption of interest-bearing liabilities. The average carrying amount of the asset during a period, including borrowing costs previously capitalized, is normally a reasonable approximation of the outlays to which the capitalization rate is applied in that period.

33. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalized during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalization.

Suspension of Capitalization

34. **Capitalization of borrowing costs shall be suspended during extended periods in which active development is interrupted, and expensed.**

35. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets, and do not qualify for capitalization. However, capitalization of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalization continues during an extended period needed for inventories to mature or an extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Cessation of Capitalization

36. **Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**

37. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete, even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities are complete.

38. **When the construction of a qualifying asset is completed in parts, and each part is capable of being used while construction continues on other parts, capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.**

39. An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts. Examples of qualifying assets that need to be complete before any part can be used include (a) an operating theatre in a hospital when all construction must be complete before the theatre may be used, (b) a sewage treatment plant where several processes are carried out in sequence at different parts of the plant, and (c) a bridge forming part of a highway.

Disclosure

40. **The financial statements shall disclose:**

    (a) **The accounting policy adopted for borrowing costs;**

    (b) **The amount of borrowing costs capitalized during the period; and**

    (c) **The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when it was necessary to apply a capitalization rate to funds borrowed generally).**

Transitional Provisions

41. [Deleted]

41A. *Improvements to IPSAS*, 2018, issued in October 2018, amended paragraph 25. An entity shall apply this amendment to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

Effective Date

42. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2001. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2001, it shall disclose that fact.**

42A. **Paragraph 6 was amended by IPSAS 32, *Service Concession Arrange-ments: Grantor* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 25–27 and 85B of IPSAS 13, the amendments to paragraphs 5, 7 and 107C of IPSAS 17, the amendments to paragraphs 2 and 125A of IPSAS 29 and the amendments to paragraphs 6 and 132A of IPSAS 31.**

42B. **Paragraphs 41 and 43 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

42C. **Paragraphs 2, 3 and 11 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

42D. **Paragraph 25 was amended and paragraph 41A added by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2019, it shall disclose that fact.**

42E. **Paragraph 6 was amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.**

42F. **Paragraph 6 was amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

42G. **Paragraph 26 was amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

43. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 5.

Revision of IPSAS 5 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC1. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 5 as a result of *Improvements to IPSAS, 2018*

BC2. The IPSASB reviewed the revisions to IAS 23, *Borrowing Costs*, included in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB noted that, although IPSAS 5 and IAS 23 have diverged, the accounting for the allowed alternative treatment in IPSAS 5 is consistent with the accounting in IAS 23. The IPSASB agreed, therefore, that there was no public sector specific reason for not adopting the amendments. The IPSASB concurred with the IASB's view that the costs of applying the amendments retrospectively might exceed the potential benefits of doing so. Consequently, an entity applies the amendments only to borrowing costs incurred on or after the date it first applies the amendments.

Revision of IPSAS 5 as a result of *Improvements to IPSAS, 2019*

BC3. The amendments to paragraph 6 update the guidance related to the components of borrowing costs resulting from IPSAS 41, *Financial Instruments* which were inadvertently omitted when IPSAS 41 was issued. The IPSASB agreed to include these minor amendments in *Improvements to IPSAS, 2019.*

Revision of IPSAS 5 as a result of *COVID-19: Deferral of Effective Dates*

BC4. The IPSASB published *Improvements to IPSAS, 2019* in January 2020, which included *Amendments to IPSAS 5*, *Borrowing Costs*. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC5. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC6. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC7. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 5 as a result of the IPSASB's Consultation Paper*, Measurement,* issued in April 2019

BC8. In April 2019, the IPSASB published the Consultation Paper, *Measurement*. The Consultation Paper proposed a comprehensive framework outlining how measurement bases should be determined when

applied in the context of IPSAS. One of the objectives of the Consultation Paper was to seek feedback on whether one of the accounting policy choices in IPSAS 5, *Borrowing Costs* should be removed.

BC9. IPSAS 5 permits two accounting policy choices for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset: capitalization or recognition as an expense.

BC10. The IPSASB proposed eliminating the option to capitalize borrowing costs in order to:

(a) Address a public sector issue where borrowing is centralized and determined for the economic entity as a whole. Expensing borrowing costs lessens the burden of attributing centralized borrowing costs to specific projects within the public sector;

(b) Enhance comparability between the cost of the acquisition, construction, or production of a qualifying asset between public sector entities; and

(c) Align more closely with the requirements in the Government Finance Statistics Manual (GFSM) 2014.

BC11. In developing its preliminary view, the IPSASB acknowledged the complexity of the issue. This complexity, and opposing views on what should be included in cost, resulted in responses to the preliminary view being split with many respondents supporting the Board's proposal, and equally, many respondents disagreeing. Those that disagreed with the proposal to remove the existing accounting policy choice considered that the reasons given for doing so were insufficient. They argued that:

(a) The difficulties in attributing borrowing costs to specific projects in the public sector were overstated and were an insufficient reason to diverge from private sector accounting treatment. Large conglomerates in the private sector face similar challenges and are able to capitalize borrowing costs;

(b) Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are part of the cost of that asset. During the period when an asset is under development, the outlays for the resources used must be financed. Financing has a cost. The cost of the asset should include all costs necessarily incurred to get the asset ready for its intended use or sale, including the cost incurred in financing the outlays as a part of the asset's acquisition, construction, or production cost;

(c) Capitalizing directly attributable borrowing costs enhances accountability and decision making; and

(d) Immediate expensing of borrowing costs would be inconsistent with the requirements in other standards to capitalize transaction costs directly attributable to the acquisition, construction, or production of a qualifying asset.

BC12. Having reviewed the responses, the IPSASB decided to retain the existing accounting policy choice. This approach enables preparers to select the policy that best achieves the measurement objective of the qualifying asset.

BC13. The IPSASB observed the existing accounting policy choice is consistent with the measurement principles in the Conceptual Framework and allows preparers of public sector financial statements to consider the qualitative characteristics of useful information when selecting an approach that most faithfully represents the cost of the asset.

BC14. Further supporting its decision to retain the accounting policy choice, the IPSASB noted the following:

(a) Both capitalizing borrowing costs and expensing borrowing costs have technical merits. In some cases, respondents took opposite views: for example, on whether borrowing costs are an attribute of the cost of an asset;

(b) The goal of the approach when accounting for borrowing costs is to assist financial statement users in obtaining the most appropriate reflection of acquisition, construction, or production costs of a qualifying asset, which may in some cases include borrowing costs;

(c) While at certain levels of government the allocation of borrowing costs is challenging, at other levels, such as at the local government levels, it can be relatively straightforward;

(d) Capitalization of borrowing costs would align with IFRS where that is an economic entity's preferred approach, whereas the expensing of borrowing costs would demonstrate alignment with GFS if that is an economic entity's preferred approach; and

(e) There would need to be a clear benefit to expensing all borrowing costs before the IPSASB would remove the existing accounting policy choice to capitalize borrowing costs. Because there are unavoidable costs in eliminating an accounting policy choice, the IPSASB carefully considered the costs and benefits of any new pronouncement. In this case, the IPSASB had not been informed that preparers who elected to capitalize borrowing costs under IPSAS 5 found doing so unnecessarily burdensome.

BC15. Some respondents to the Consultation Paper identified practical public sector challenges in capitalizing borrowing costs. The IPSASB therefore developed Implementation Guidance and Illustrative Examples to assist entities in determining the extent to which borrowing costs can be capitalized.

Distinction between borrowing costs and transaction costs

BC16. In reaching the conclusion to retain the accounting policy choice, the IPSASB noted that accounting for borrowing costs may not be consistent with accounting for transaction costs. Some respondents proposed that the accounting treatment of borrowing costs and transaction costs should be consistent because they considered either:

(a) Borrowing costs to be a type of transaction costs. Borrowing costs are directly attributable to the borrowing (for example, the issuance of a government financial instrument). Therefore, they meet the criteria of a transaction cost; or

(b) Transaction costs to be a type of borrowing costs. Some respondents proposed this view based on the methodology applied in calculating the effective interest rate of a financial instrument. This is because some transaction costs are added to, or subtracted from, the principal amount of a financial instrument when determining the gross proceeds of a borrowing in order to determine the effective interest rate.

BC17. The IPSASB considered these views, but decided that borrowing costs and transaction costs are different economic phenomena. The IPSASB concluded it is appropriate for the accounting principles to differ for each type of "cost" depending on the facts and circumstances.

BC18. In reaching this view, the IPSASB noted that borrowing costs comprise interest and other expenses incurred by an entity in connection with borrowing funds. Borrowing costs are often contractually linked to the underlying borrowing. Should the borrowing be transferred, the borrowing costs would either be transferred to the new counterparty or separated contractually.

BC19. Transaction costs are incremental costs directly attributable to the transaction. However, transaction costs are independent of the contractual terms of the debt instrument. Should the debt instrument be transferred, the entity transferring the instrument is generally not compensated for the transaction costs because they are not transferred to the counterparty assuming the instrument.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 5.

A.1 Period of Borrowing Cost Capitalization

When applying the allowed alternative treatment, as described in paragraphs 17–18, when can an entity begin to include borrowing costs in the cost of the qualifying asset?

Where outlays and borrowings have been incurred specifically to fund a qualifying asset's acquisition, construction, or production, the costs of those borrowings should be capitalized when the activities necessary to prepare the asset for its intended use or sale begin. The activities necessary to get the asset ready for use encompass more than the asset's physical acquisition, construction, or production. The activities include technical and administrative work prior to the commencement of physical acquisition, construction, or production, but exclude holding the asset when no development that changes the asset's condition is being undertaken.

The activities (i.e., technical and administrative work) undertaken prior to commencement of the physical acquisition, construction, or production of a qualifying asset should contribute to the actual development or construction of that asset.

A.2 Limit on Capitalization

When applying the allowed alternative treatment, as described in paragraphs 17–18, to specific borrowings, are borrowing costs included in the cost of the qualifying asset in that period limited to the borrowing costs incurred in that period?

Yes. If a borrowing can be specifically associated with outlays on acquisition, construction, or production of a qualifying asset, the amount of borrowing costs capitalized during that period is limited to the borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

A.3 Asset Funded through Transfers

In many jurisdictions, the acquisition, construction, or production of a qualifying asset is funded through a transfer from another public sector entity. Does the entity acquiring, constructing, or producing the qualifying asset consider the transferor's underlying source of the funds, i.e., whether the funds are generated by tax revenues, general cash holdings or borrowings, when it determines the amount that can be included in the cost of the qualifying asset when applying the allowed alternative treatment, as described in paragraphs 17–18?

No. When the acquisition, construction, or production of a qualifying asset is fully funded through a transfer, there will be no directly attributable borrowing costs to capitalize. The entity may include in the cost of the qualifying asset only those borrowing costs which it has incurred.

A.4 Asset Funded through a Centralized Lending Program – Interest Rates

A centralized lending agency may fund its activities by borrowings through several separate loan instruments. Each instrument may have a different interest rate. An entity may borrow funds from the centralized lending agency and use these funds for the acquisition, construction, or production of a qualifying asset. If the entity is using the allowed alternative treatment, as described in paragraphs 17–18, does the entity apply the weighted average interest rate incurred by the centralized lending agency when including borrowing costs in the cost of the qualifying asset?

No. The weighted average interest rate incurred by the centralized lending agency is not relevant in the preparation of the financial statements of the entity acquiring, constructing, or producing the qualifying asset. The entity can include in the cost of the qualifying asset only those borrowing costs which it itself has incurred.

The entity must consider all facts and circumstances when determining the borrowing costs incurred in its arrangement with the centralized lending agency. In some cases, the interest rate stated in the terms of the arrangement may not reflect the true borrowing costs associated with the funds received. When the entity identifies concessionary terms, the entity should apply the requirements in IPSAS 41, *Financial Instruments*, paragraphs AG118–AG127[1] and capitalize borrowing costs based on a market related interest rate that the entity would have incurred on a similar loan (see IPSAS 41, IE153-IE172 for examples illustrating how to determine the interest rate in a concessionary loan). Interest expense calculated using the effective interest rate method is eligible for inclusion in the cost of the qualifying asset in accordance with this Standard.

If the centralized lending agency and the entity to which it lends funds are part of the same economic entity, in the financial statements of the consolidated entity, the borrowing costs incurred by the centralized lending agency can be capitalized to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.

A.5 Asset Funded through an Entity's Own General Borrowing – Borrowings are not Specific to Qualifying Asset

When an entity acquiring, constructing, or producing a qualifying asset manages its own borrowing program, but borrowings are not specific to the qualifying asset, how does the entity determine the borrowing costs directly attributable to the qualifying asset? This may occur when an entity uses cash on hand to fund the cost of a qualifying asset. This cash on hand is funded from general borrowings, tax revenue and other fees and transfers.

The amount of borrowing costs eligible for inclusion in the cost of the qualifying asset is determined using the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period. The weighted average of borrowing costs is then applied to the outlays on the qualifying asset incurred during the period in determining the amount eligible for capitalization.

The entity shall exclude from the weighted average calculation, those borrowings that are made specifically for the purpose of obtaining another qualifying asset until substantially all the activities necessary to prepare that asset for its intended use are complete. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

A.6 Asset Funded through General Borrowings – Range of Debt Instruments

Does an entity apply a weighted average of borrowing costs when multiple debt instruments are used to fund the cost of a qualifying asset?

Yes. An entity may not be able to fund the cost of a qualifying asset with a single debt instrument. When multiple debt instruments are used, the cost of borrowing is determined by calculating the weighted average of the borrowing costs applicable to all the debt instruments outstanding during the period, excluding borrowings that are made specifically for the purpose of obtaining another qualifying asset (until substantially all the activities necessary to prepare that asset for its intended use are complete).

[1] Where an entity has not yet adopted IPSAS 41, the requirements in IPSAS 29, *Financial Instruments: Recognition and Measurement,* paragraphs AG84-AG90 are applied. Similar to the IPSAS 41 requirements, an entity should capitalize borrowing costs based on a market related interest rate that the constructing entity would have incurred on a similar loan.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 5.

Qualifying Asset Constructed Over a Period of Time

IE1. On March 31, 20X1, Municipality XYZ begins construction of a tunnel to accommodate transit between two commercial hubs. The construction period is 5 years and the project is budgeted to cost CU100 million (CU20 million is paid to the construction company on the date the construction begins and on March 31 of each subsequent year during the construction period). Municipality XYZ issues a 25-year CU100 million bond on March 31, 20X1 that yields a fixed coupon of 5 per cent per annum. This bond was issued specifically to finance the construction of this project. The Municipality has a December 31 year end and earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.

IE2. On December 31, 20X1, the Municipality has accrued borrowing costs of CU3.75 million (CU100 million x 5 percent x 9/12 months).

IE3. In determining the borrowing costs that can be included in the cost of the tunnel, the Municipality is limited to capitalizing the borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

IE4. At December 31, 20X1, Municipality XYZ recognizes its tunnel asset as a work in progress. The amount capitalized is CU21.95 million (CU20 million + [CU100 million x 5 percent x 9/12 months] – [CU80 million x 3 percent x 9/12 months]). This represents the funds transferred to the construction company and the borrowing costs incurred during the period less the investment income earned on the CU80 million invested.

Centralized Borrowing Program – Eligible Borrowing Costs

IE5. The Department of Infrastructure begins construction of a new road network on June 15, 20X1. The project costs are budgeted to be CU500 million. All financing required by the Department of Infrastructure, and all other government departments, is secured centrally by the Department of Finance.

IE6. The Department of Finance estimates its cash flow needs on an annual basis in order to determine the most appropriate source of funding to meet its internal lending needs. These sources include tax revenue, fee revenue, bonds issuances and loans.

IE7. The Department of Infrastructure negotiates a 10-year loan from the Department of Finance. The Department of Finance requires the Department of Infrastructure to pay borrowing costs of 3 percent per annum. This is consistent with the market rate of interest the Department of Infrastructure would incur if the arrangement was negotiated at arm’s length.

IE8. When the Department of Infrastructure secures financing from the Department of Finance, the Department of Infrastructure is aware borrowings comprise various sources, but has no visibility of how the Department of Finance sources the funds, nor of the weighted average borrowing costs the Department of Finance incurs.

IE9. In determining the borrowing costs eligible for inclusion in the cost of the road network, the Department of Infrastructure includes only those borrowing costs which it itself has incurred. Because the loan is at market terms, the Department of Infrastructure concludes there are no concessionary elements and determines borrowing costs eligible for inclusion in the cost of the road network are based on the interest rate of 3 percent stated in the contract.

General Borrowing – Weighted Average Cost of Borrowing

IE10. State Government T has begun construction of a new airport. The cost of this airport is budgeted to be CU500 million. State Government T manages its own borrowings; however, it does not borrow for specific projects.

In determining its borrowing needs, State Government T budgets its cash shortfall over a given period and ensures borrowings will cover its liquidity needs.

IE11. Over the construction period, State Government T held three instruments that were open for the entire construction period:

- State Bonds – CU1 billion, yielding an annual rate of 5 percent;
- Loan with Financial Institution A – CU300 million, with an annual interest rate of 7 percent; and
- Loan with Financial Institution B – CU600 million, with an annual interest rate of 9 percent.

IE12. In determining the amount of borrowing costs eligible for inclusion in the cost of the airport, State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period.

	A	**B**	**C**	**D = B x C**
	Principal	**Interest Rate**	**Proportion of Debt**	**Weighted Average**
State Bonds	CU1,000 million	5 percent	1,000 / 1,900	2.63
Loan A	CU300 million	7 percent	300 / 1,900	1.11
Loan B	CU600 million	9 percent	600 / 1,900	2.84
Weighted Average Interest Rate				**6.58 percent**

IE13. State Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period to be 6.58 percent.

Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

IE14. State Government C began construction of a new road network on January 1, 20X1. The cost of this road network is budgeted to be CU750 million. State Government C funds this project with amounts received on January 1, 20X1 from two sources:

- Federal grant in the amount of CU500 million; and
- Loan from a financial institution of CU250 million, with an annual interest rate of 5 percent.

In order to receive the federal grant, State Government C was required to show it was able to secure financing. It is State Government C's policy to allocate borrowed funds to the construction of the qualifying asset first. State Government C earns a rate of interest of 3 percent on the temporary investment of any excess borrowings.

IE15. As at December 31, 20X1, State Government C has incurred outlays of CU200 million as part of the construction of the asset. These outlays were transferred in one lump sum payment to the construction company at the commencement of construction on January 1, 20X1. In addition to the outlays of CU200 million, State Government C capitalizes CU11 million ([CU250 million x 5 percent] – [CU50 million x 3 percent]) in borrowing costs, against the qualifying asset.

IE16. Because State Government C borrowed CU250 million for the purposes of obtaining the road network, but has only incurred outlays related to that qualifying asset in the amount of CU200 million, State Government C was able to earn interest revenue on the excess funds borrowed. State Government C capitalized

borrowing costs incurred during the period of CU12.5 million less the investment income of CU1.5 million on the temporary investment of those borrowings.

COMPARISON WITH IAS 23

IPSAS 5, *Borrowing Costs* is drawn primarily from IAS 23, *Borrowing Costs* (1993). The main differences between IPSAS 5 and IAS 23 are as follows:

- IPSAS 5 uses different terminology, in certain instances, from IAS 23. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” and “net assets/equity” in IPSAS 5. The equivalent terms in IAS 23 are “income,” “income statement,” and “equity.”
- IPSAS 5 contains a different set of definitions of technical terms from IAS 23 (paragraph 5).

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International Public Sector Accounting Standard (IPSAS) 6, *Consolidated and Separate Financial Statements* has been superseded by IPSAS 34, *Separate Financial Statements* and IPSAS 35, *Consolidated Financial Statements*. These Standards apply for annual financial statements covering periods beginning on or after January 1, 2017. As a result, IPSAS 6 is no longer applicable and has been removed.

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International Public Sector Accounting Standard (IPSAS) 7, *Investments in Associates* has been superseded by IPSAS 36, *Investment in Associates and Joint Ventures.* This Standard applies for annual financial statements covering periods beginning on or after January 1, 2017. As a result, IPSAS 7 is no longer applicable and has been removed.

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International Public Sector Accounting Standard (IPSAS) 8, *Interests in Joint Ventures* has been superseded by IPSAS 37, *Joint Arrangements*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2017. As a result, IPSAS 8 is no longer applicable and has been removed.

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International Public Sector Accounting Standard (IPSAS) 9, *Revenue from Exchange Transactions* has been superseded by IPSAS 47, *Revenue*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2026. As a result, IPSAS 9 is no longer applicable and has been removed.

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IPSAS 10, *FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 29 (Reformatted 1994), *Financial Reporting in Hyperinflationary Economies*, published by the International Accounting Standards Board (IASB®), and IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* published by the IFRS® Interpretations Committee. Extracts from IAS 29 and IFRIC 7 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 10, *FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 10, *Financial Reporting in Hyperinflationary Economies* was issued in July 2001.

Since then, IPSAS 10 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards: Specific IFRIC Interpretations* (issued January 2025)
- IPSAS 46, *Measurement* (issued May 2023)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (issued December 2006)

Table of Amended Paragraphs in IPSAS 10

Paragraph Affected	How Affected	Affected By
Heading above 1	New	*Improvements to IPSAS* October 2011
1	New	*Improvements to IPSAS* October 2011
1A	Amended – Existing paragraph 1 renumbered to 1A	*Improvements to IPSAS* October 2011 *Improvements to IPSAS* October 2018
1	Amended	IPSAS 4 December 2006
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	*Improvements to IPSAS* October 2018
11	Amended	IPSAS 4 December 2006
17	Amended	*Improvements to IPSAS* January 2010
18	Amended	*Improvements to IPSAS* January 2010
20	Amended	IPSAS 4 December 2006

Paragraph Affected	How Affected	Affected By
22	Amended	*Improvements to IPSAS* January 2010 IPSAS 40 January 2017
26[1]	Deleted	IPSAS 4 December 2006
28	Amended	*Improvements to IPSAS* November 2010
29	Amended	*Improvements to IPSAS* November 2010
31	Amended	IPSAS 46 May 2023
33	Amended	IPSAS 4 December 2006
36	Amended	IPSAS 4 December 2006
38A	New	*Improvements to IPSAS* January 2010
38B	New	*Improvements to IPSAS* October 2011
38C	New	IPSAS 33 January 2015
38D	New	*The Applicability of IPSAS* April 2016
38E	New	IPSAS 40 January 2017
38F	New	*Improvements to IPSAS* October 2018
38G	New	IPSAS 46 May 2023
38H	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
39	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
A1	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
A2	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
A3	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
A4	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

[1] Subsequent paragraphs have been renumbered.

IPSAS 10, *FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES*

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International Public Sector Accounting Standard 10, *Financial Reporting in Hyperinflationary Economies*, is set out in paragraphs 1−39. All the paragraphs have equal authority. IPSAS 10 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting* by Public Sector Entities. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance

Objective

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

Scope

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

2. [Deleted]

3. [Deleted]

4. In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same reporting period, is misleading.

5. This Standard does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

   (a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.

   (b) The general population regards monetary amounts, not in terms of the local currency, but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.

   (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.

   (d) Interest rates, wages, and prices are linked to a price index.

   (e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

6. It is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date. Nevertheless, this Standard applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.

Definitions

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

   Carrying amount of an asset is the amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.

   Carrying amount of a liability is the amount at which a liability is recognized in the statement of financial position.

   Non-monetary items are items that are not monetary items.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

The Restatement of Financial Statements

8. Prices change over time as the result of various specific or general political, economic, and social forces. Specific forces such as changes in supply and demand and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general forces may result in changes in the general level of prices, and therefore in the general purchasing power of money.

9. In a hyperinflationary economy, financial statements are useful only if they are expressed in terms of the measuring unit current at the reporting date. As a result, this Standard applies to the financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

10. Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, the budgetary information should also be restated in accordance with this Standard.

11. **The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by IPSAS 1, and any information in respect of earlier periods, shall also be stated in terms of the measuring unit current at the reporting date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, apply.**

12. **The surplus or deficit on the net monetary position shall be separately disclosed in the statement of financial performance.**

13. The restatement of financial statements in accordance with this Standard requires the application of certain procedures as well as judgment. The consistent application of these procedures and judgments from period to period is more important than the precise accuracy of the resulting amounts, included in the restated financial statements.

Statement of Financial Position

14. Statement of financial position amounts not already expressed in terms of the measuring unit current at the reporting date are restated by applying a general price index.

15. Monetary items are not restated, because they are already expressed in terms of the monetary unit current at the reporting date. Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

16. Assets and liabilities linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the reporting date. These items are carried at this adjusted amount in the restated statement of financial position.

17. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the reporting date, such as net realizable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.

18. Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the

date of acquisition to the reporting date. For example, property, plant and equipment, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.

19. Detailed records of the acquisition dates of items of property, plant, and equipment may not be available or able to be estimated. In these circumstances, it may be necessary, in the first period of application of this Standard, to use an independent professional assessment of the value of the items as the basis for their restatement.

20. A general price index may not be available for the periods for which the restatement of property, plant, and equipment is required by this Standard. In these circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

21. Some non-monetary items are carried at amounts current at dates other than that of acquisition or that of the statement of financial position, for example, property, plant, and equipment that has been revalued at some earlier date. In these cases, the carrying amounts are restated from the date of the revaluation.

22. To determine whether the restated amount of a non-monetary item has become impaired and should be reduced an entity applies relevant impairment tests in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount where appropriate, and restated amounts of inventories are reduced to net realizable value or current replacement cost. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of financial performance of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets/equity and surplus or deficit. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

23. The impact of inflation is usually recognized in borrowing costs. It is not appropriate both to restate the capital expenditure financed by borrowing, and to capitalize that part of the borrowing costs that compensates for the inflation during the same period. This part of the borrowing costs is recognized as an expense in the period in which the costs are incurred.

24. An entity may acquire assets under an arrangement that permits it to defer payment without incurring an explicit interest charge. Where it is impracticable to impute the amount of interest, such assets are restated from the payment date and not the date of purchase.

25. At the beginning of the first period of application of this Standard, the components of net assets/equity, except accumulated surpluses/deficits and any revaluation reserve, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation reserve that arose in previous periods is eliminated. Restated accumulated surpluses/deficits are derived from all the other amounts in the restated statement of financial position.

26. At the end of the first period and in subsequent periods, all components of net assets/equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in net assets/equity are disclosed in accordance with IPSAS 1.

Statement of Financial Performance

27. This Standard requires that all items in the statement of financial performance are expressed in terms of the measuring unit current at the reporting date. Therefore all amounts need to be restated by applying the

change in the general price index from the dates when the items of revenue and expenses were initially recorded.

Gain or Loss on Net Monetary Position

28. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This gain or loss on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, accumulated gains or losses and items in the statement of financial performance and the adjustment of index linked assets and liabilities. The gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.

29. The gain or loss on the net monetary position is included in the statement of financial performance. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 16 is offset against the gain or loss on net monetary position. Other items in the statement of financial performance, such as interest revenue and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of financial performance.

Cash Flow Statement

30. This Standard requires that all items in the cash flow statement are expressed in terms of the measuring unit current at the reporting date.

Corresponding Figures

31. Corresponding figures for the previous reporting period, whether they were based on an historical cost model or a current value model, are restated by applying a general price index, so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4 apply.

Consolidated Financial Statements

32. A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. The financial statements of any such controlled entity need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign-controlled entity, its restated financial statements are translated at closing rates. The financial statements of controlled entities that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IPSAS 4.

33. If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements.

Selection and Use of the General Price Index

34. The restatement of financial statements in accordance with this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

Economies Ceasing to be Hyperinflationary

35. **When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.**

Disclosures

36. **The following disclosures shall be made:**

    (a) **The fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and**

    (b) **The identity and level of the price index at the reporting date, and the movement in the index during the current and the previous reporting periods.**

37. The disclosures required by this Standard are needed to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Effective Date

38. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2002, it shall disclose that fact.**

38A. **Paragraphs 17, 18, and 22 were amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged.**

38B. **Existing paragraph 1 was renumbered to 1A and a new paragraph 1 was inserted by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

38C. **Paragraph 39 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

38D. **Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

38E. **Paragraph 22 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

38F. **Paragraphs 1A and 9 were amended by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

38G. **Paragraph 31 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

38H. **Appendix A (paragraphs A1-A4) were added by *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025. An entity shall apply these amendments for annual periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, 2026, it shall disclose that fact.**

39. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix A

Applying the Restatement Approach under IPSAS 10

This Appendix is an integral part of IPSAS 10.

Introduction

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

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

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

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

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

A4. For reporting entities subject to income taxes, guidance on the determination of deferred tax items in the opening statement of financial position for the reporting period can be found in the relevant international or national accounting standards dealing with income taxes.

Basis for Conclusions

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

Revision of IPSAS 10 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC1. The IPSASB reviewed the revisions to IAS 29 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 10 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

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

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

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

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

Revision of IPSAS 10 as a result of *Improvements to IPSAS, 2018*

BC3. Paragraphs 1A and 9 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Similarly, IAS 29, *Financial Reporting in Hyperinflationary Economies*, uses the term "financial statements" rather than "primary financial statements" in its equivalent paragraphs. Consequently the IPSASB agreed to standardize the terminology and to replace the term "primary financial statements" with the term "financial statements" wherever this term occurred.

Revisions of IPSAS 10 as a result of *Amendments to IPSAS Standards: Specific IFRIC Interpretations*

BC4. In September 2023, the IPSASB initiated a narrow scope project to consider seven IFRIC and SIC Interpretations that were issued by the IFRS Interpretations Committee, but had not yet been considered by the IPSASB, to determine their applicability to the public sector. In its assessment, the IPSASB considered whether public sector entities may face similar application issues, and whether incorporating guidance based on the Interpretations into IPSAS would help clarify the application of existing accounting principles.

BC5. The IPSASB reviewed the requirements of IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, first issued by the IASB in 2005, and the IFRS Interpretations Committee's considerations in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating guidance based on IFRIC 7 into IPSAS 10.

BC6. In April 2024, the IPSASB published Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations*, which proposed to incorporate guidance into IPSAS to clarify the application of existing accounting principles, based on IFRIC 7. The IPSASB received strong constituent support for these proposals. Therefore, it decided to amend IPSAS 10 to incorporate the proposed guidance.

Illustrative Example

This example accompanies, but is not part of, IPSAS 10.

IE1. This Standard sets out the requirements for the restatement of financial statements, including the consolidated financial statements, of entities reporting in the currency of a hyperinflationary economy.

IE2. The following example illustrates the process for restatement of financial statements. In preparing this illustration:

- The gain on net monetary position for the period was indirectly derived as the difference resulting from the restatement of non-monetary assets and liabilities, accumulated gains or losses, and items in the statement of financial performance (see paragraph 28).
- Inventory on hand at the end of the reporting period was assumed to have been acquired later in the reporting period, when the general inflation index was 170.
- The general price index was 120 at the beginning of the period, 180 at the end of the period, and it averaged 150 during the period.
- Revenue and expenses, other than depreciation, are assumed to accrue evenly throughout the reporting period.
- Assets whose historical cost was 7,500 were completely depreciated and scrapped; their salvage value was zero.

Financial Reporting Under Hyperinflation

Example

Statement of Financial Position	1.1.X0 (Per IPSAS 10)	31.12.X0 (Un-adjusted)	Indexation Factor	31.12.X0 (Per IPSAS 10)		Gain/Loss on Net Monetary Position
Cash and investments	5,000	10,000	–	10,000		–
Inventories	–	2,000	180/170	2,118	*Restated*	118
Physical assets:						
Historical cost	47,500	40,000	180/120	60,000		20,000
Accum. depreciation	(22,500)	(20,000)	180/120	(30,000)		(10,000)
Net book value	25,000	20,000	180/120	30,000	*Restated*	10,000
Total Assets	30,000	32,000		42,118		
Borrowings	26,000	26,000	–	26,000		
Net Assets						
Brought forward	4,000	4,000	180/120	6,000	*Restated*	(2,000)
Net surplus for period (see below)		2,000	See below	10,118		1,100
	4,000	**6,000**		**16,118**		**9,218**
Statement of Financial Performance						
Revenues		50,000	180/150	60,000	*Restated*	10,000
Depreciation		(5,000)	180/120	(7,500)	*Restated*	(2,500)
Other expenses		(43,000)	180/150	(51,600)	*Restated*	(8,600)
Gain on net monetary position				9,218		
Surplus for the year		**2,000**		**10,118**		**(1,100)**

NB: This Standard (paragraph 27) requires that statement of financial performance items be restated using the movement in the index from the dates that the transactions were recorded. In this example, items of revenue and expense, other than depreciation, accrue evenly over the reporting period, and an average inflation rate has been applied. The gain on net monetary position has been derived indirectly (see final column) by applying the general price index to the non-monetary items in the statement of financial position and the statement of financial performance (paragraph 28).

COMPARISON WITH IAS 29

IPSAS 10, Financial Reporting in Hyperinflationary Economies is drawn primarily from IAS 29, *Financial Reporting in Hyperinflationary Economies* and includes amendments made to IAS 29 as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 10 and IAS 29 are as follows:

- IPSAS 10 uses different terminology, in certain instances, from IAS 29. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” and “net assets/equity” in IPSAS 10. The equivalent terms in IAS 29 are “income,” “income statement,” and “equity.”
- IAS 29 contains guidance on the restatement of current cost financial statements. IPSAS 10 does not include this guidance.
- IPSAS 10 contains an illustrated example that illustrates the process of the restating of financial statements, using an indirect method, of an entity reporting in the currency of a hyperinflationary economy.
- IPSAS 10 includes authoritative text in Appendix A, based on guidance in IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*. The IASB issues IFRICs as separate documents.

International Public Sector Accounting Standard (IPSAS) 11, *Construction Contracts* has been superseded by IPSAS 47, *Revenue*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2026. As a result, IPSAS 11 is no longer applicable and has been removed.

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IPSAS 12, *INVENTORIES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 2 (Revised 2003), *Inventories*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 2 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 12, *INVENTORIES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 12, *Inventories* was issued in July 2001.

In December 2006 the IPSASB issued a revised IPSAS 12.

Since then, IPSAS 12 has been amended by the following IPSAS Accounting Standards:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- *Stripping Costs in the Production Phase of a Surface Mine (issued November 2024)*
- *IPSAS 48, Transfer Expenses (issued May 2023)*
- *IPSAS 47, Revenue (issued May 2023)*
- *IPSAS 46, Measurement (issued May 2023)*
- *IPSAS 45, Property, Plant, and Equipment (issued May 2023)*
- *IPSAS 43, Leases (issued January 2022)*
- *COVID-19: Deferral of Effective Dates (issued November 2020)*
- *IPSAS 41, Financial Instruments (issued August 2018)*
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 12

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
1	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
2	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010

Paragraph Affected	How Affected	Affected By
		IPSAS 41 August 2018 IPSAS 47 May 2023
4	Amended	*The Applicability of IPSAS* April 2016 IPSAS 51 January 2026
5	Deleted	The Applicability of IPSAS April 2016
9	Amended	IPSAS 47 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
10	Amended	IPSAS 46 May 2023
11	Amended	IPSAS 47 May 2023 IPSAS 48 May 2023
12	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
14A	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
15	Amended	*Improvements to IPSAS* November 2010
16	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
17	Amended	IPSAS 48 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
17A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
20	Amended	IPSAS 43 January 2022
Heading above paragraph 28	Deleted	IPSAS 47 May 2023
28	Deleted	IPSAS 47 May 2023
29	Amended	IPSAS 27 December 2009
31	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
33	Amended	*Improvements to IPSAS* November 2010
39	Amended	IPSAS 47 May 2023
Heading above paragraph 43	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
43	Amended	IPSAS 48 May 2023

Paragraph Affected	How Affected	Affected By
		Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement August 2025
44	Amended	IPSAS 48 May 2023
47	Amended	IPSAS 46 May 2023
48	Amended	IPSAS 47 May 2023
Heading above paragraph 50A	New	IPSAS 46 May 2023
50A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
50B	New	IPSAS 46 May 2023
50C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
50D	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
50E	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
50F	New	IPSAS 46 May 2023
Heading above paragraph 51	Amended	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Subheading above paragraph 51	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
51A	New	IPSAS 27 December 2009
51B	New	IPSAS 33 January 2015
51C	New	*Improvements to IPSAS* April 2016
51D	New	*The Applicability of IPSAS* April 2016
51E	Amended	*COVID-19: Deferral of Effective Dates* November 2020
51F	New	IPSAS 43 January 2022
51G	New	IPSAS 45 May 2023
51H	New	IPSAS 46 May 2023
51I	New	IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
51J	New	IPSAS 48 May 2023
Heading above paragraph 51K	Amended	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
51K	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
51L	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
51M	New	IPSAS 51 January 2026
52	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
Heading above paragraph 52A	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
52A	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
52B	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
52C	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
58	Amended	IPSAS 33 November 2025
Appendix A	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Heading above paragraph A1	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A1	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A2	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A3	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A4	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A5	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Heading above paragraph A6	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*

Paragraph Affected	How Affected	Affected By
A6	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A7	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Headings above paragraph A8	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A8	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A9	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A10	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A11	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Heading above paragraph A12	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A12	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A13	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Heading above paragraph A14	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A14	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A15	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A16	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*

December 2006

IPSAS 12, *INVENTORIES*

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International Public Sector Accounting Standard 12, *Inventories*, is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS 12 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value or current operational value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:**

   (a) **[Deleted]**

   (b) **Financial instruments (see IPSAS 28, *Financial Instruments*: Presentation and IPSAS 41, *Financial Instruments*);**

   (c) **Biological assets related to agricultural activity and agricultural produce at the point of harvest (see IPSAS 27, *Agriculture*); and**

   (d) **Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.**

3. **This Standard does not apply to the measurement of inventories held by:**

   (a) **Producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in surplus or deficit in the period of the change; and**

   (b) **Commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in surplus or deficit in the period of the change.**

4. This Standard does not apply to tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

5. [Deleted]

6. The inventories referred to in paragraph 2(d) are not encompassed by IAS 2, Inventories, and are excluded from the scope of this Standard because they involve specific public sector issues that require further consideration.

7. The inventories referred to in paragraph 3(a) are measured at net realizable value at certain stages of production. This occurs, for example, (a) when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or (b) when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded only from the measurement requirements of this Standard.

8. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded only from the measurement requirements of this Standard.

Definitions

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

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Inventories are assets:

(a) **In the form of materials or supplies to be consumed in the production process;**

(b) **In the form of materials or supplies to be consumed or distributed in the rendering of services;**

(c) **Held for sale or distribution in the ordinary course of operations; or**

(d) **In the process of production for sale or distribution.**

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Non-exchange transactions are transactions that are not exchange transactions, where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

The term current operational value is defined in IPSAS 46, *Measurement*.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Net Realizable Value

10. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs of disposal.

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. Costs incurred to fulfill a binding arrangement that does not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with IPSAS 47, *Revenue.*

12. Inventories in the public sector may include:

(a) Military inventories;

(b) Consumable stores;

(c) Maintenance materials;

(d) Spare parts for plant and equipment, other than those dealt with in IPSAS 45, *Property, Plant, and Equipment;*

(e) Strategic stockpiles (for example, energy reserves);

(f) Stocks of unissued currency;

(g) Postal service supplies held for sale (for example, stamps);

(h) Work-in-progress, including:

(i) Educational/training course materials; and

(ii) Client services (for example, auditing services), where those services are sold at arm's length prices; and

(i) Land/property held for sale.

13. Where the government controls the rights to create and issue various assets, including postal stamps and currency, these items of inventory are recognized as inventories for the purposes of this Standard. They are not reported at face value, but measured in accordance with paragraph 15, that is, at their printing or minting cost.

14. When a government maintains strategic stockpiles of various reserves, such as energy reserves (for example, oil), for use in emergency or other situations (for example, natural disasters or other civil defense emergencies), these stockpiles are recognized as inventories for the purposes of this Standard and treated accordingly.

14A. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems. However, some types of missiles may be accounted for in accordance with IPSAS 45 if they satisfy the criteria to be classified in that standard.

Measurement of Inventories

15. **Inventories shall be measured at the lower of cost and net realizable value, except where paragraph 16 or paragraph 17 applies.**

16. **Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their deemed cost as at the date of acquisition. An entity shall apply IPSAS 46 when measuring the deemed cost of inventories.**

17. **Inventories shall be measured at the lower of cost and current operational value where they are held for:**

(a) **Distribution at no charge (a transfer expense) or for a nominal charge;**

(b) **Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or**

(c) **Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.**

17A. **An entity shall apply IPSAS 46 when measuring the current operational value of inventories measured in accordance with paragraph 17.**

Cost of Inventories

18. **The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.**

Costs of Purchase

19. The costs of purchase of inventories comprise (a) the purchase price, (b) import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and (c) transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, and supplies. Trade discounts, rebates, and other similar items are deducted in determining the costs of purchase.

Costs of Conversion

20. The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of (a) the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and (b) the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.

21. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased, so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

22. For example, the allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings could include costs relating to landscaping, drainage, pipe laying for utility connection, etc.

23. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realizable value, and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other Costs

24. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

25. Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

    (a) Abnormal amounts of wasted materials, labor, or other production costs;

    (b) Storage costs, unless those costs are necessary in the production process before a further production stage;

    (c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and

    (d) Selling costs.

26. IPSAS 5, *Borrowing Costs*, identifies limited circumstances where borrowing costs are included in the cost of inventories.

27. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

28. [Deleted]

Cost of Agricultural Produce Harvested from Biological Assets

29. In accordance with IPSAS 27, inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the Measurement of Cost

30. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency, and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

31. Inventories may be transferred to the entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is measured in accordance with paragraph 16.

Cost Formulas

32. **The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, shall be assigned by using specific identification of their individual costs.**

33. Specific identification of costs means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the surplus or deficit for the period.

34. **When applying paragraph 33 an entity shall use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use (for example, certain commodities used in one segment and the same type of commodities used in another segment), different cost formulas may be justified. A difference in geographical location of inventories (and in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.**

35. **The cost of inventories, other than those dealt with in paragraph 32, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.**

36. For example, inventories used in one segment may have a use to the entity different from the same type of inventories used in another segment. However, a difference in geographical location of inventories, by itself, is not sufficient to justify the use of different cost formulas.

37. The FIFO formula assumes that the items of inventory that were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net Realizable Value

38. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange, or distribution have increased. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or service potential expected to be realized from their sale, exchange, distribution, or use.

39. Inventories are usually written down to net realizable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses, and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular operation or geographical segment.

40. Estimates of net realizable value also take into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Guidance on the treatment of provisions or contingent liabilities, such as those arising from firm sales contracts in excess of inventory quantities held, and on firm purchase contracts can be found in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

41. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold, exchanged, or distributed at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

42. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e., the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory that is carried at net realizable value because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Distribution and Consumption of Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories for purposes that are not directly related to their ability to generate net cash inflows. For example, these types of inventories arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the service potential of the inventory for financial reporting purposes is measured in accordance with paragraph 17. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

Recognition as an Expense

44. **When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognized in accordance with IPSAS 48, *Transfer Expenses*. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.**

45. For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

46. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant, or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

Disclosure

47. **The financial statements shall disclose:**

(a) **The accounting policies adopted in measuring inventories, including the cost formula used;**

(b) **The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**

(c) **The carrying amount of inventories carried at fair value less costs of disposal;**

(d) **The amount of inventories recognized as an expense during the period;**

(e) **The amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 42;**

(f) **The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period in accordance with paragraph 42;**

(g) **The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 42; and**

(h) **The carrying amount of inventories pledged as security for liabilities.**

48. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods.

49. The amount of inventories recognized as an expense during the period consists of (a) those costs previously included in the measurement of inventory that has now been sold, exchanged, or distributed, and (b) unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other costs, such as distribution costs.

50. Some entities adopt a format for surplus or deficit that results in amounts being disclosed other than the cost of inventories recognized as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognized as an expense for (a) raw materials and consumables, (b) labor costs, and (c) other costs, together with the amount of the net change in inventories for the period.

Current Value Measurement

50A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For inventories that are measured at current operational value or fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

50B. To meet the objectives in paragraph 50A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 50A, an entity shall disclose additional information necessary to meet those objectives.

50C. To meet the objectives in paragraph 50A, an entity shall disclose, at a minimum, the following information for each class of inventories (see paragraph 50D for information on determining appropriate classes of inventories) measured at current operational value or fair value (including measurements based on fair value within the scope of IPSAS 46*)* in the statement of financial position after initial recognition:

(a) The current operational value or fair value measurement at the end of the reporting period, and for current operational value measurements, the reasons for the measurement;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3). For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs;

(c) For current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For current operational value measurement estimated using significant unobservable inputs, or for fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative

unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity;

(d) For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those inventories held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

50D. An entity shall determine the appropriate disaggregation of inventories on the basis of the following:

(a) The nature, characteristics and risks of the inventories; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized or to the extent to which unobservable inputs are used in estimating current operational value.

The disaggregation may need to be greater for current operational value measurements estimated using unobservable inputs or for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of inventories for which disclosures about current operational value or fair value measurements should be provided requires judgment. Inventories will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an inventory, an entity may use that disaggregation in

providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

50E. For each class of inventories not measured at current operational value or fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 50C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using unobservable inputs, required by paragraph 50C(c). For such inventories, an entity does not need to provide the other disclosures required by this Standard.

50F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Effective Date and Transition

Effective Date

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

51A. **IPSAS 27 amended paragraph 29. An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 27 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.**

51B. **Paragraph 52 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSAS) issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

51C. **Paragraph 12 was amended and paragraph 14A was added by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

51D. **Paragraphs 4 and 5 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

51E. **Paragraph 2 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

51F. **Paragraph 20 was amended by IPSAS 43, issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

51G. **Paragraph 12(d) and 14A were amended by IPSAS 45 issued in May 2023. An *Leases* entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1,**

2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

51H. **Paragraphs 10 and 47 were amended, and paragraphs 50A–50F were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

51I. **Paragraphs 2, 9, 11, 39, and 48 were amended, and paragraph 28 was deleted by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

51J. **Paragraphs 11, 17, 43 and 44 were amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 48 at the same time.**

51K. **Appendix A was added by *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued in November 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

51L. **Paragraph 17A is added, paragraphs 1, 9, 16, 17, 31, 43, 50A, 50C(a)-50C(g), 50D, and 50E are amended, and heading above paragraph 43 is amended by Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

51M. **Paragraph 4 was added by IPSAS 51, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

52. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

52A. An entity shall apply Appendix A to production stripping costs incurred on or after the beginning of the earliest period presented.

52B. As at the beginning of the earliest period presented, any previously recognized asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated.

Such balances shall be depreciated or amortized over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.

52C. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognized in opening accumulated surplus or deficit at the beginning of the earliest period presented.

Withdrawal of IPSAS 12 (2001)

53. This Standard supersedes IPSAS 12, *Inventories*, issued in 2001.

Appendix A

Stripping Costs in the Production Phase of a Surface Mine

This Appendix is an integral part of IPSAS 12.

Introduction

A1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.

A2. During the development phase of the mine (before production begins), stripping costs are usually capitalized as part of the depreciable cost of building, developing and constructing the mine. Those capitalized costs are depreciated or amortized on a systematic basis, usually by using the units of production method, once production begins.

A3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.

A4. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

A5. This Appendix considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

A6. This Appendix applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

A7. This Appendix addresses the following issues:

(a) Recognition of production stripping costs as an asset;

(b) Initial measurement of the stripping activity asset; and

(c) Subsequent measurement of the stripping activity asset.

Application of IPSAS to Stripping Cost in the Production Phase of a Surface Mine

Recognition of production stripping costs as an asset

A8. To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of IPSAS 12, *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognize these costs as a non-current asset, if the criteria in paragraph A9 below are met. This Appendix refers to the non-current asset as the 'stripping activity asset'.

A9. An entity shall recognize a stripping activity asset if, and only if, all of the following are met:

(a) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

(b) The entity can identify the component of the ore body for which access has been improved; and

(c) The costs relating to the stripping activity associated with that component can be measured reliably.

A10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset.

A11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

A12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

A13. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

(a) Cost of inventory produced compared with expected cost;

(b) Volume of waste extracted compared with expected volume, for a given volume of ore production; and

(c) Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

A14. After initial recognition, the stripping activity asset shall be carried, in the same way as the existing asset of which it is a part, at either its:

- Historical cost less any accumulated depreciation or amortization and less any accumulated impairment losses, or
- Its revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation or amortization and less any subsequent accumulated impairment losses.

A15. The stripping activity asset shall be depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

A16. The expected useful life of the identified component of the ore body that is used to depreciate or amortize the stripping activity asset will differ from the expected useful life that is used to depreciate or amortize the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)

Paragraphs 62F, 62G, and 154Q are added. The heading above paragraph 62H is added. New text is underlined.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

…

***Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)**

62F. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to stripping activity assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

62G. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45 or IPSAS 31, whichever applies. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45 or IPSAS 31, whichever applies, it is not required to recognize stripping activity assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

…

Effective Date

…

154Q. **Paragraphs 62H and 62I were added by *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

Background

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

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

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 12, issued in July 2001, was based on IAS 2 (Revised 1993), *Inventories*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),2 actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 2 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 2 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 12 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 12 as a result of Part III of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC7. Government Finance Statistics (GFS) reporting guidelines use the term "military inventories" to comprise all single-use items, including ammunition. The IPSASB concluded that replacing the IPSAS term "ammunition" with the GFS term "military inventories" and including a description will clarify the types of military assets that are to be classified as inventories, while increasing consistency with GFS reporting guidelines.

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1 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 12 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC8. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

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

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

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

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

Revision of IPSAS 12 as a result of IPSAS 46, *Measurement*

BC9. The IPSASB developed IPSAS 46 to ensure that measurement bases are applied consistently to all transactions. This pronouncement amends IPSAS 12 by:

(a) Updating the definition of fair value to clarify its application across IPSAS and align with IFRS; and

(b) Adding fair value disclosure requirements to help users assess the measurement techniques and inputs used to measure inventory at fair value and the effect on surplus or deficit or net assets/equity for the period.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 46.

BC10. IPSAS 46 also introduced a public sector specific measurement basis applicable to assets held for their operational capacity. As part of its review of all measurement bases in its literature, the IPSASB considered whether current operational value should be added to, or replace, an existing measurement basis in this Standard.

BC11. During the development of ED 77, *Measurement*, the IPSASB had agreed to retain the current measurement bases in this Standard. The IPSASB specifically noted current replacement cost, which shares some characteristics with current operational value, should be retained, and not replaced in this Standard because when ED 77 was issued, the IPSASB was not aware of any issues in practice when applying current replacement cost to inventory. The IPSASB agreed any changes to a specific measurement basis in this Standard should be considered as part of a standalone project related to this IPSAS. This would allow stakeholders to clearly consider the implications of the proposal.

BC12. After approving IPSAS 46 in March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the updated Conceptual Framework: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*.

Revision of IPSAS 12 as a result of *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)

BC13. This Appendix A clarifies existing guidance on accounting for stripping costs in the production phase of a surface mine and applies to all types of natural resources that are extracted using this process. The IPSASB agreed this guidance is required in accounting for such costs in the public sector.

BC14. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRIC 20 in the development of this revision, except for terminology and other IPSASB-specific formatting and consistency amendments.

BC15. The IPSASB noted a common change made when the new guidance is aligned with IFRS is to include the principle of ‘service potential’ with ‘economic benefit’ when evaluating whether an asset can be recognized. In this case, the IPSASB agreed not to amend the recognition criteria in paragraph A9 of Appendix A, because it is expected that entities conduct these operations for commercial purposes, and not for service delivery reasons.

BC16. The IPSASB agreed to align with IFRIC 20 and the application of the guidance to operations of a commercial nature. Therefore, stripping activity assets are held for their financial capacity (i.e., commercial purpose), to which the fair value measurement basis applies.

BC17. The IPSASB noted that it does not develop separate interpretative pronouncements. Rather, the IPSASB incorporates interpretive guidance as Appendices in the related IPSAS. The IPSASB considered the placement of the interpretive guidance on stripping costs in either IPSAS 12, *Inventories*, IPSAS 31, *Intangible Assets*, or IPSAS 45, *Property, Plant, and Equipment*, and concluded that stripping costs, similar to other costs incurred to produce inventory, ultimately are capitalized, whether directly (e.g., direct labor) or indirectly (e.g., production overheads such as depreciation), in the cost of mineral inventory produced by a surface mine, from which the surface mine will derive benefits through the sale of the mineral inventory. Therefore, due to this relationship between stripping activities and the cost of inventory produced, the IPSASB decided that the guidance aligned with IFRIC 20 be included as Appendix A to IPSAS 12, and not also as an appendix to IPSAS 31 or IPSAS 45, to limit duplication of guidance in IPSAS.

Revision of IPSAS 12 as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025.

Reasons for Revising IPSAS 12

BC18. In March 2023, the IPSASB commenced the evaluation of the applicability of current operational value across existing IPSAS, except for IPSAS 45, *Property, Plant, and Equipment* where the IPSASB had already decided current operational value was an applicable current value measurement basis for assets held for their operational capacity when the entity elects the current value model as its accounting policy choice.

BC19. The IPSASB developed current operational value in response to constituents' concerns received on the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSAS should be in the scope of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, the IPSASB identified IPSAS that require measurement of assets at current values or non-historical cost measurement basis.

Scope of the Revisions

BC20. The scope of the revisions to IPSAS 12 was limited to the evaluation of the applicability of current operational value for initial and subsequent measurement basis of inventories, to provide more relevant measurement information for inventories held for:

(a) Distribution at no charge (a transfer expense) or for a nominal charge;

(b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or

(c) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.

Evaluation of the Applicability of Current Operational Value

Measurement of Inventories

BC21. The IPSASB evaluated whether current operational value should replace current replacement cost in the measurement of inventories at the 'lower of cost and current replacement cost'. Measuring inventories at the lower of cost and current replacement cost is a public sector specific guidance for specific inventories, see paragraph BC20.

BC22. The IPSASB considered that current replacement cost and current operational value are both amounts that the entity would pay for the asset at the measurement date and share key principles - entry values, entity-specific, and reflect the current condition of the existing asset. Therefore, replacing current replacement cost with current operational value is not expected to result in measurement differences, but rather will align IPSAS 12 measurement guidance with the IPSASB's updated measurement guidance in IPSAS 46, *Measurement*.

BC23. The IPSASB agreed that current operational value should replace current replacement cost when measuring inventories at the lower of cost and current replacement cost.

Initial Measurement of Inventories Acquired through a Non-Exchange Transaction

BC24. For inventories acquired through a non-exchange transaction, the IPSASB agreed to align IPSAS 12 initial measurement (i.e., fair value) with IPSAS 46 guidance. The alignment of the guidance results in an entity initially measuring inventories at deemed cost, meaning at current operational value or fair value depending on whether the entity holds the inventories for financial capacity or as described in paragraph BC15. The IPSASB noted that this will prevent a revaluation of inventories to current operational value after initial recognition solely because of differences between current value measurement bases.

Responses to the Initial and Subsequent Measurement of Inventories Proposed in ED 90

BC25. The IPSASB published Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement* in August 2024. The proposals to replace 'current replacement cost' with 'current operational value' in the measurement of inventories at the 'lower of cost and current replacement cost' was strongly supported by constituents. Some respondents raised concerns, such as:

(a) Questioning whether the costs of aligning IPSAS 12 measurement guidance with IPSAS 46 outweigh the benefits;

(b) Requesting additional application guidance to estimate current operational value; or

(c) Noting that jurisdiction or entity-specific reasons will make the estimation of current operational value challenging.

BC26. The IPSASB considered the issues raised by these respondents and decided to proceed with ED 90 proposals because:

(a) As noted by other respondents, current replacement cost and current operational value shared key principles, and the values are expected to be similar; as such, costs of implementation are not expected to outweigh its benefits; and

(b) Consistent with its objective, IPSAS 46 contains guidance to help entities estimate the measurement bases in its scope, such as the current operational value.

Measuring Biological Assets (IPSAS 27) at the Lower of Cost and Current Operational Value

BC27. Paragraph 29 requires the cost of inventories comprising agricultural produce that an entity has harvested from its biological assets to be fair value less cost to sell at the point of harvest in accordance with IPSAS 27,

Agriculture. Measuring inventories comprising agricultural produce that an entity has harvested from its biological assets at the lower of cost and current operational value could result in a revaluation when current operational value is lower than cost (i.e., fair value less cost to sell when the agricultural produce becomes inventory).

BC28. The IPSASB agreed that the introduction of current operational value for the measurement of specific inventories, see paragraph BC15, is consistent with existing measurement guidance to measure inventory at the lower of cost and current replacement cost because:

(a) The IPSASB noted that the practice of writing inventories down below cost, in this case to current operational value, is consistent with the view that assets are not to be carried in excess of the service potential expected to be realized from their distribution, or consumption; and

(b) The expectation that current replacement cost and current operational value will yield a similar, if not the same, value.

Current Value Measurement Disclosures

BC29. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB decided to remove the terms ‘recurring’ and ‘non-recurring’ to enhance the consistency of current value measurement disclosure terminology across IPSAS. The IPSASB noted that whether a current value measurement basis is applied on a recurring or non-recurring basis after initial recognition is specified in the relevant IPSAS. Therefore, having these terms can lead to inconsistent application of the current value measurement disclosure principles.

BC30. The IPSASB published ED 90 in August 2024. The ED proposed enhancing current value measurement disclosures by removing the terms ‘recurring and non-recurring’ and adding current operational value disclosures in IPSAS 12. The current value measurement disclosures added were on a non-recurring basis because the measurement of inventories at current operational value at subsequent measurement take place on a non-recurring basis (i.e., when an inventory in the scope of paragraph 17 is written down to current operational value because this is lower than its cost).

BC31. A respondent to ED 90 sought clarification for:

(a) Current value measurement disclosures requirements at subsequent measurement for inventories at current operational value; however, the same disclosures are not required for inventories subsequently measured at net realizable value; and

(b) The reason why IPSAS 46 did not include similar current value measurement disclosures for current replacement cost, as those proposed in ED 90 for subsequent measurement at current operational value.

BC32. The IPSASB noted that current value measurement disclosures were added across IPSAS Standards to enhance the disclosures of measurement bases in the scope of IPSAS 46. Disclosures are required only for assets subsequently measured under a measurement basis available in the current value model. Measurement bases for assets available in the current value model are current operational value and fair value. Therefore, current value measurement disclosures are not required when inventories are subsequently measured at net realizable value.

BC33. The IPSASB noted respondents' support for enhancing current value measurement disclosures as proposed in ED 90. Therefore, it decided to proceed with removing ‘recurring and non-recurring’ from current value measurement disclosures in IPSAS 12. The IPSASB does not consider the respondent comments, documented in BC26, to challenge the proposal to remove the term ‘recurring and non-recurring’.

COMPARISON WITH IAS 2

IPSAS 12, *Inventories* is drawn primarily from IAS 2, *Inventories* (Revised 2003). The main differences between IPSAS 12 and IAS 2 are as follows:

- IPSAS 12 uses a different definition from IAS 2; the difference recognizes that in the public sector some inventories are distributed at no charge or for a nominal charge.
- IPSAS 12 clarifies that work-in-progress of services that are to be distributed for no or nominal consideration directly in return from the recipients are excluded from the scope of the Standard.
- IPSAS 12 requires that where inventories are acquired through a non-exchange transaction, their cost is their deemed cost as at the date of acquisition.
- IPSAS 12 requires that certain inventories to be valued at the lower of cost and current operational value.
- Principles from IFRIC 20 have been included as an authoritative appendix to IPSAS 12 with relevant public sector terminology changes. The IASB issues IFRIC interpretations as separate pronouncements.
- IPSAS 12 uses different terminology, in certain instances, from IAS 2. The most significant example is the use of the terms “statement of financial performance” in IPSAS 12. The equivalent term in IAS 2 is “income statement.”
- IPSAS 12 does not use the term “income,” which in IAS 2 has a broader meaning than the term “revenue.”

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International Public Sector Accounting Standard (IPSAS) 13, *Leases* has been superseded by IPSAS 43, *Leases*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2025. As a result, IPSAS 13 is no longer applicable and has been removed.

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IPSAS 14, *EVENTS AFTER THE REPORTING DATE*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 10 (Revised 2003), *Events After the Balance Sheet Date*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 10 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 14, *EVENTS AFTER THE REPORTING DATE*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 14, *Events After the Reporting Date* was issued in December 2001.

In December 2006 the IPSASB issued a revised IPSAS 14.

Since then, IPSAS 14 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued January 2010)

Table of Amended Paragraphs in IPSAS 14

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Amended	*Definition of Material* October 2025
11	Amended	IPSAS 41 August 2018
15	Amended	*The Applicability of IPSAS* April 2016
16	Amended	*Improvements to IPSAS* January 2010 IPSAS 44 May 2022
21	Amended	*The Applicability of IPSAS* April 2016
30	Amended	*Definition of Material* October 2025

Paragraph Affected	How Affected	Affected By
31	Amended	*Improvements to IPSAS* April 2016 IPSAS 40 January 2017 IPSAS 44 May 2022
32A	New	*Improvements to IPSAS* January 2010
32B	New	IPSAS 33 January 2015
32C	New	*Improvements to IPSAS* April 2016
32D	New	*The Applicability of IPSAS* April 2016
32E	New	IPSAS 40 January 2017
32F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
32G	New	IPSAS 44 May 2022
32H	New	*Definition of Material* October 2025
33	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025

IPSAS 14, *EVENTS AFTER THE REPORTING DATE*

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International Public Sector Accounting Standard 14, *Events After the Reporting Date*, is set out in paragraphs 1–34. All the paragraphs have equal authority. IPSAS 14 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe:

   (a) When an entity should adjust its financial statements for events after the reporting date; and

   (b) The disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date.

   The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the accounting for, and disclosure of, events after the reporting date.**

3. [Deleted]

4. [Deleted]

Definitions

5. **The following term is used in this Standard with the meaning specified:**

   Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

   (a) **Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and**

   (b) **Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).**

   Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

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

Authorizing the Financial Statements for Issue

6. In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorized for issue. The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorization for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalize those statements for issue. The audit opinion is provided on those finalized financial statements. Events after the reporting date are all events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue, even if those events occur after (a) the publication of an announcement of the surplus or deficit, (b) the authorization of the financial statements of a controlled entity, or (c) publication of other selected information relating to the financial statements.

7. The process involved in preparing and authorizing the financial statements for issue may vary for different types of entities within and across jurisdictions. It can depend upon the nature of the entity, the governing body structure, the statutory requirements relating to that entity, and the procedures followed in preparing

and finalizing the financial statements. Responsibility for authorization of financial statements of individual government agencies may rest with the head of the central finance agency (or the senior finance official/accounting officer, such as the controller or accountant-general). Responsibility for authorization of consolidated financial statements of the government as a whole may rest jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

8. In some cases, as the final step in the authorization process, an entity is required to submit its financial statements to another body (for example, a legislative body such as Parliament or a local council). This body may have the power to require changes to the audited financial statements. In other cases, the submission of statements to the other body may be merely a matter of protocol or process, and that other body may not have the power to require changes to the statements. The date of authorization for issue of the financial statements will be determined in the context of the particular jurisdiction.

Recognition and Measurement

9. In the period between the reporting date and the date of authorization for issue, elected government officials may announce a government's intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon (a) whether they provide more information about the conditions existing at reporting date, and (b) whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

Adjusting Events after the Reporting Date

10. **An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date.**

11. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

    (a) The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognized provision related to this court case in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Asse*ts, or recognizes a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 24 in IPSAS 19.

    (b) The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:

        (i) The bankruptcy of a debtor that occurs after the reporting date usually confirms that the debtor was credit-impaired at the end of the reporting period; and

        (ii) The sale of inventories after the reporting date may give evidence about their net realizable value at the reporting date;

    (c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

    (d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another government under a revenue-sharing agreement in place during the reporting period;

(e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and

(f) The discovery of fraud or errors that show that the financial statements were incorrect.

Non-adjusting Events after the Reporting Date

12. **An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting date.**

13. The following are examples of non-adjusting events after the reporting date:

(a) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorized for issue. The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period. Therefore, despite its policy of regularly revaluing, an entity would not adjust the amounts recognized in its financial statements for the properties. Similarly, the entity does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure under paragraph 30; and

(b) Where an entity charged with operating particular community service programs decides after the reporting date, but before the financial statements are authorized, to provide/distribute additional benefits directly or indirectly to participants in those programs. The entity would not adjust the expenses recognized in its financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events under paragraph 29.

Dividends or Similar Distributions

14. **If an entity declares dividends or similar distributions after the reporting date, the entity shall not recognize those distributions as a liability at the reporting date.**

15. Dividends may arise in the public sector when, for example, a public sector entity controls and consolidates the financial statements of a commercial public sector entity that has outside ownership interests to whom it pays dividends. In addition, some public sector entities adopt a financial management framework, for example “purchaser provider” models, that require them to pay income distributions to their controlling entity, such as the central government.

16. If dividends or similar distributions to owners are declared after the reporting date but before the financial statements are authorized for issue, the dividends or similar distributions are not recognized as a liability at the reporting date because no obligation exists at that time. Such dividends or similar distributions are disclosed in the notes in accordance with IPSAS 1. Dividends and similar distributions do not include a return of capital.

Going Concern

17. The determination of whether the going concern assumption is appropriate needs to be considered by each entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a government as a whole. For example, an individual government agency may not be a going concern because the government of which it forms part has decided to transfer all its activities to another government agency. However, this restructuring has no impact upon the assessment of going concern for the government itself.

18. **An entity shall not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determine after the reporting date**

either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so.

19. In assessing whether the going concern assumption is appropriate for an individual entity, those responsible for the preparation of the financial statements, and/or the governing body, need to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organizational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

20. In the case of entities whose operations are substantially budget-funded, going concern issues generally only arise if the government announces its intention to cease funding the entity.

21. Some public sector entities may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. For any such entity, deterioration in operating results and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.

22. If the going concern assumption is no longer appropriate, this Standard requires an entity to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the entity, for example, whether operations are to be transferred to another government entity, sold, or liquidated. Judgment is required in determining whether a change in the carrying value of assets and liabilities is required.

23. When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.

24. IPSAS 1 requires certain disclosures if:

    (a) The financial statements are not prepared on a going concern basis. IPSAS 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or

    (b) Those responsible for the preparation of the financial statements are aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date. IPSAS 1 requires such uncertainties to be disclosed.

Restructuring

25. Where a restructuring announced after the reporting date meets the definition of a non-adjustable event, the appropriate disclosures are made in accordance with this Standard. Guidance on the recognition of provisions associated with restructuring is found in IPSAS 19. Simply because a restructuring involves the disposal of a component of an entity, this does not in itself bring into question the entity's ability to continue as a going concern. However, where a restructuring announced after the reporting date means that an entity is no longer a going concern, the nature and amount of assets and liabilities recognized may change.

Disclosure

Disclosure of Date of Authorization for Issue

26. **An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity shall disclose that fact.**

27. It is important for users to know when the financial statements were authorized for issue, as the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organizations have the authority to amend the financial statements after issuance. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are Ministers, the government of which the entity forms part, Parliament, or an elected body of representatives. If changes are made, the amended financial statements are a new set of financial statements.

Updating Disclosure about Conditions at the Reporting Date

28. **If an entity receives information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date, the entity shall update disclosures that relate to these conditions in the light of the new information.**

29. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorized for issue, even when the information does not affect the amounts that the entity recognizes in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should now recognize a provision, an entity updates its disclosures about the contingent liability in the light of that evidence.

Disclosure of Non-adjusting Events after the Reporting Date

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

    (a) **The nature of the event; and**

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

31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

    (a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since the reporting date;

    (b) The entity decides after the reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programs that it operates, and those additional benefits have a major impact on the entity;

    (c) A major public sector combination (IPSAS 40, *Public Sector Combinations* requires specific disclosures in such cases), a disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;

    (d) Announcing a plan to discontinue an operation or major program;

    (e) Major purchases of assets, classification of assets as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by other public sector entities;

    (f) The destruction of a major building by a fire after the reporting date;

    (g) Announcing, or commencing the implementation of, a major restructuring (see IPSAS 19);

(h) The introduction of legislation to forgive loans made to entities or individuals as part of a program;

(i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;

(j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities (guidance on accounting for income taxes can be found in the relevant international or national accounting standard dealing with income taxes);

(k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and

(l) Commencing major litigation arising solely out of events that occurred after the reporting date.

Effective Date

32. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

32A. **Paragraph 16 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged.**

32B. **Paragraph 33 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

32C. **Paragraph 31 was amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017, it shall disclose that fact.**

32D. **Paragraphs 3 and 4 were deleted and paragraphs 15 and 21 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

32E. **Paragraph 31 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

32F. **Paragraph 11 was amended by IPSAS 41, *Financial Instruments* issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

32G. **Paragraphs 16 and 31 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

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

33. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal of IPSAS 14 (2001)

34. This Standard supersedes IPSAS 14, *Events after the Reporting Date*, issued in 2001.

Appendix

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 14.

Revision of IPSAS 14 as a result of the IASB's General Improvements Project 2003

Background

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

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

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 14, issued in December 2001, was based on IAS 10 (Revised 1999), *Events after the Balance Sheet Date*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 10 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's Comprehensive Subscription Service can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 10 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 14 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 14 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 10 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

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1 The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 14 as a result of Part II of *Improvements to IPSAS 2015:* issues raised by stakeholders

BC8. When IPSAS 14 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders had indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

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

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

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

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

BC8A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 14 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC9. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Comparison with IAS 10

IPSAS 14, *Events After the Reporting Date* is drawn primarily from IAS 10 (revised 2003), *Events after the Balance Sheet Date* and includes an amendment made to IAS 10 as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 14 and IAS 10 are as follows:

- IPSAS 14 notes that where the going concern assumption is no longer appropriate, judgment is required in determining the impact of this change on the carrying value of assets and liabilities recognized in the financial statements (paragraph 22).
- IPSAS 14 contains additional commentary on determining the date of authorization for issue (paragraphs 6, 7, and 8).
- IPSAS 14 uses different terminology, in certain instances, from IAS 10. The most significant examples are the use of the terms “net assets/equity,” and “reporting date” in IPSAS 14. The equivalent terms in IAS 10 are “equity,” and “balance sheet date.”
- IPSAS 14 does not use the term “income,” which in IAS 10 has a broader meaning than the term “revenue.”
- IPSAS 14 contains a definition of “reporting date,” IAS 10 does not contain a definition of “balance sheet date.”

International Public Sector Accounting Standard (IPSAS) 15, *Financial Instruments: Disclosure and Presentation* has been superseded by IPSAS 28, *Financial Instruments: Presentation*; IPSAS 29, *Financial Instruments: Recognition and Measurement*; and IPSAS 30, *Financial Instruments: Disclosures*. These Standards apply for annual financial statements covering periods beginning on or after January 1, 2013. As a result, IPSAS 15 is no longer applicable and has been removed.

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IPSAS 16, *INVESTMENT PROPERTY*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 40 (Revised 2003), *Investment Property*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 40 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 16, *INVESTMENT PROPERTY*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 16, *Investment Property* was issued in December 2001.

In December 2006 the IPSASB issued a revised IPSAS 16.

Since then, IPSAS 16 has been amended by the following IPSAS Accounting *Standards*:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSAS) (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 16

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Deleted	IPSAS 43 January 2022
6	Amended	IPSAS 27 December 2009 *Improvements to IPSAS* April 2016 IPSAS 45 May 2023

Paragraph Affected	How Affected	Affected By
		IPSAS 51 January 2026
7	Amended	IPSAS 43 January 2022
Heading above paragraph 8	Deleted	*Improvements to IPSAS* October 2018
8	Deleted	IPSAS 43 January 2022
Heading above paragraph 9	Deleted	*Improvements to IPSAS* October 2018
9	Amended	*The Applicability of IPSAS* April 2016
10	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
12	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022
13	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 47 May 2023
18A	New	IPSAS 40 January 2017
19	Amended	IPSAS 45 May 2023
20	Amended	*Improvements to IPSAS* April 2016 IPSAS 43 January 2022
25A	New	IPSAS 43 January 2022
26	Amended	IPSAS 43 January 2022
27	Amended	IPSAS 43 January 2022
29	Deleted	*Improvements to IPSAS* January 2010
33	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
34	Deleted	IPSAS 43 January 2022
35	Deleted	IPSAS 43 January 2022
38	Amended	IPSAS 46 May 2023
38A	New	IPSAS 43 January 2022
39	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
40	Amended	*Improvements to IPSAS* January 2010 *Improvements to IPSAS* April 2016 IPSAS 45 May 2023 IPSAS 46 May 2023
41	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
41A	New	IPSAS 43 January 2022 IPSAS 46 May 2023
41B	New	IPSAS 43 January 2022
41C	New	IPSAS 43 January 2022 IPSAS 46 May 2023
Heading above paragraph 42	Amended	IPSAS 46 May 2023
42	Amended	IPSAS 46 May 2023
43	Deleted	IPSAS 43 January 2022
45	Deleted	IPSAS 46 May 2023
46	Deleted	IPSAS 46 May 2023
47	Deleted	IPSAS 46 May 2023
48	Deleted	IPSAS 46 May 2023
49	Amended	IPSAS 43 January 2022 IPSAS 46 May 2023
49A	Amended	IPSAS 43 January 2022 IPSAS 46 May 2023
50	Amended	IPSAS 43 January 2022 IPSAS 46 May 2023
51	Deleted	IPSAS 46 May 2023
52	Deleted	IPSAS 46 May 2023
53	Deleted	IPSAS 46 May 2023
54	Deleted	IPSAS 46 May 2023
55	Deleted	IPSAS 46 May 2023
56	Deleted	IPSAS 46 May 2023
57	Amended	*Improvements to IPSAS* January 2010 IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
58	Deleted	IPSAS 46 May 2023
59	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 46 May 2023
60	Deleted	IPSAS 46 May 2023
Heading above paragraph 62	Amended	IPSAS 46 May 2023
62	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
62A	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
62B	Amended	*Improvements to IPSAS* January 2010 IPSAS 46 May 2023
63	Amended	*Improvements to IPSAS* January 2010 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
Heading above paragraph 65	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
65	Amended	IPSAS 43 January 2022 IPSAS 44 May 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
66	Amended	*Improvements to IPSAS* January 2010 *Improvements to IPSAS* October 2018
68	Amended	*Improvements to IPSAS* October 2018
70	Amended	IPSAS 46 May 2023
71	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
72	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023

Paragraph Affected	How Affected	Affected By
73	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
76	Amended	*Improvements to IPSAS* October 2018
78	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
79	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
80	Amended	IPSAS 43 January 2022
81	Amended	IPSAS 47 May 2023
Heading above paragraph 85	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
85	Amended	IPSAS 43 January 2022
86	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
86(d)	Deleted	IPSAS 46 May 2023
Heading above paragraph 87	Amended	IPSAS 46 May 2023
87	Amended	IPSAS 40 January 2017 IPSAS 44 May 2022 IPSAS 46 May 2023
88	Amended	IPSAS 43 January 2022
89	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
Heading above paragraph 89A	New	IPSAS 46 May 2023
89A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
89B	New	IPSAS 46 May 2023
89C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
89D	New	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
89E	New	IPSAS 46 May 2023
89F	New	IPSAS 46 May 2023
Heading above paragraph 90	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
90	Amended	IPSAS 40 January 2017 IPSAS 44 May 2022 IPSAS 46 May 2023
91	Deleted	IPSAS 33 January 2015
92	Deleted	IPSAS 33 January 2015
93	Deleted	IPSAS 33 January 2015
94	Deleted	IPSAS 33 January 2015
95	Deleted	IPSAS 33 January 2015
96	Deleted	IPSAS 33 January 2015
Heading above paragraph 94	Amended	IPSAS 46 May 2023
97	Amended	*Improvements to IPSAS* October 2018 IPSAS 46 May 2023
98	Deleted	IPSAS 33 January 2015
99	Deleted	IPSAS 33 January 2015
Heading above paragraph 100	Amended	IPSAS 46 May 2023
Heading above paragraph 100A	New	IPSAS 43 January 2022
100A	New	IPSAS 43 January 2022
Heading above paragraph 100B	New	*Improvements to IPSAS* October 2018
100B	New	*Improvements to IPSAS* October 2018
100C	New	*Improvements to IPSAS* October 2018
100D	New	*Improvements to IPSAS* October 2018
101A	New	*Improvements to IPSAS* January 2010
101B	New	IPSAS 33 January 2015
101C	New	*Improvements to IPSAS* April 2016
101D	New	*The Applicability of IPSAS* April 2016
101E	New	IPSAS 40 January 2017
101F	New	*Improvements to IPSAS* October 2018

Paragraph Affected	How Affected	Affected By
101G	New	*Improvements to IPSAS* October 2018
101H	New	IPSAS 43 January 2022
101I	New	IPSAS 44 May 2022
101J	New	IPSAS 45 May 2023
101K	New	IPSAS 46 May 2023
101L	New	IPSAS 47 May 2023
101M	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
101N	New	IPSAS 51 January 2026
102	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
Illustrative Decision Tree	Amended	*Improvements to IPSAS* January 2010

December 2006

IPSAS 16, *INVESTMENT PROPERTY*

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International Public Sector Accounting Standard 16, *Investment Property*, is set out in paragraphs 1–103. All the paragraphs have equal authority. IPSAS 16 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

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

3. [Deleted]

4. [Deleted]

5. [Deleted]

6. This Standard does not apply to:

   (a) Biological assets related to agricultural activity (see IPSAS 27, *Agriculture* and IPSAS 45, *Property, Plant, and Equipment*);

   (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources; and

   (c) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

Definitions

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

   Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized in the statement of financial position.

   Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

   Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation, or both, rather than for:

   (a) **Use in the production or supply of goods or services, or for administrative purposes; or**

   (b) **Sale in the ordinary course of operations.**

   Owner-occupied property is property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services, or for administrative purposes.

   Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Classification of Property as Investment Property or Owner-Occupied Property

8. [Deleted]

9. There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation. For example, a public sector entity may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other public sector entities may also hold property for rentals or capital appreciation, and use the cash generated to

finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. IPSAS 45 applies to owned owner-occupied property and IPSAS 43, *Leases* applies to owner-occupied property held by a lessee as a right-of-use asset.

11. In some public sector jurisdictions, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a government department may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means property occupied by the entity that recognizes the property in its financial statements.

12. The following are examples of investment property:

    (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation that may be sold at a beneficial time in the future.

    (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation).

    (c) A building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties.

    (d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

    (e) Property that is being constructed or developed for future use as investment property.

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

    (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

    (b) [Deleted]

    (c) Owner-occupied property (see IPSAS 43 and IPSAS 45), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use

as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) [Deleted]

(e) Property that is leased to another entity under a finance lease.

(f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with IPSAS 45.

(g) Property held for strategic purposes which would be accounted for in accordance with IPSAS 45.

14. In many jurisdictions, public sector entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property. However, where a public sector entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, public sector entities hold some property that comprises (a) a portion that is held to earn rentals or for capital appreciation rather than to provide services, and (b) another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

15. In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when a government agency (a) owns an office building that is held exclusively for rental purposes and rented on a commercial basis, and (b) also provides security and maintenance services to the lessees who occupy the building.

16. In other cases, the services provided are significant. For example, a government may own a hotel or hostel that it manages through its general property management agency. The services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel or hostel is owner-occupied property, rather than investment property.

17. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a government or government agency that is the owner of a hotel may transfer some responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end of the spectrum, the government’s or government agency’s position may, in substance, be that of a passive investor. At the other end of the spectrum, the government or government agency may simply have outsourced day-to-day functions, while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

18. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property, and with the related guidance in paragraphs 9–17. Paragraph 86(c) requires an entity to disclose these criteria when classification is difficult.

18A. Judgment is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a public sector combination within the scope of IPSAS 40, *Public Sector Combinations*. Reference should be made to IPSAS 40 to determine whether it is a public sector combination. The discussion in paragraphs 9–18 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a public sector combination as defined in IPSAS 40. Determining whether a specific transaction meets the definition of a public sector combination as defined in IPSAS 40 and includes an investment property as defined in this Standard requires the separate application of both Standards.

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, the property would be accounted for as property, plant, and equipment in accordance with IPSAS 45.

Recognition

20. **An owned investment property shall be recognized as an asset when, and only when:**

    (a) **It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and**

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

21. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset, and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognized.

22. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph 27 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

23. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property, and costs incurred subsequently to add to, replace part of, or service a property.

24. Under the recognition principle in paragraph 20, an entity does not recognize in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the repairs and maintenance of the property.

25. Parts of investment property may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognizes in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard.

25A. An investment property held by a lessee as a right-of-use asset shall be recognized in accordance with IPSAS 43.

Measurement at Recognition

26. **An owned investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).**

27. **Where an owned investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**

28. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes, and other transaction costs.

29. [Deleted]

30. The cost of investment property is not increased by:

    (a) Start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management);

    (b) Operating losses incurred before the investment property achieves the planned level of occupancy; or

    (c) Abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.

31. If payment for investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

32. An investment property may be acquired through a non-exchange transaction. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to initial recognition, to adopt either the current value model (paragraphs 42–64) or the historical cost model (paragraph 65).

34. [Deleted]

35. [Deleted]

36. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably

measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

37. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

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

38. The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various measurements within the range can be reasonably assessed and used when measuring fair value. If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

38A. An investment property held by a lessee as a right-of-use asset shall be measured initially in accordance with IPSAS 43.

Measurement after Recognition

Accounting Policy

39. **With the exception noted in paragraph 41A, an entity shall choose as its accounting policy either the current value model in paragraphs 42–64 or the historical cost model in paragraph 65, and shall apply that policy to all of its investment property.**

40. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the current value model to the historical cost model will result in a more relevant presentation.

41. This Standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the current value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

41A. **An entity may:**

(a) **Choose either the current value model or the historical cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**

(b) **Choose either the current value model or the historical cost model for all other investment property, regardless of the choice made in (a).**

41B. Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others held by the entity. Paragraph 41A does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

41C. If an entity chooses different models for the two categories described in paragraph 41A, sales of investment property between pools of assets measured using different models shall be recognized at fair value and the cumulative change in fair value shall be recognized in surplus or deficit. Accordingly, if an investment property is sold from a pool in which the current value model is used into a pool in which the historical cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

Current Value Model

42. **After initial recognition, an entity that chooses the current value model shall measure all of its investment property at fair value, except in the cases described in paragraph 62.**

43. [Deleted]

44. **A gain or loss arising from a change in the fair value of investment property shall be recognized in surplus or deficit for the period in which it arises.**

45. [Deleted]

46. [Deleted]

47. [Deleted]

48. [Deleted]

49. When measuring the fair value of investment property in accordance with Appendix D of IPSAS 46, an entity shall ensure that the fair value reflects, among other things, rental revenue from current leases and other assumptions that market participants would use when pricing the investment property under current market conditions.

49A. When a lessee uses the current value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying asset, at fair value.

50. IPSAS 43 specifies the basis for initial recognition of the cost of an investment property held by a lessee as a right-of-use asset. Paragraph 42 requires investment property held by a lessee as a right-of-use asset to be remeasured, if necessary, to fair value if the entity chooses the current value model. When lease payments are at market rates, the fair value of an investment property held by a lessee as a right-of-use asset at acquisition, net of all expected lease payments (including those relating to recognized lease liabilities), should be zero. Thus, remeasuring a right-of-use asset from cost in accordance with IPSAS 43 to fair value in accordance with paragraph 42 (taking into account the requirements in paragraph 59) should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value basis is made after initial recognition.

51. [Deleted]

52. [Deleted]

53. [Deleted]

54. [Deleted]

55. [Deleted]

56. [Deleted]

57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable on a continuing basis (see paragraph 62).

58. [Deleted]

59. In determining the carrying amount of investment property under the fair value basis, an entity does not double-count assets or liabilities that are recognized as separate assets or liabilities. For example:

    (a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognized separately as property, plant, and equipment.

    (b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.

    (c) The fair value of investment property excludes prepaid or accrued lease revenue, because the entity recognizes it as a separate liability or asset.

    (d) The fair value of investment property held by a lessee as a right-of-use asset reflects expected cash flows (including variable lease payments that are expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized lease liability, to arrive at the carrying amount of the investment property using the fair value basis.

60. [Deleted]

61. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized liabilities) will exceed the present value of the related cash receipts. An entity applies IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognize a liability and, if so, how to measure it.

Inability to Measure Fair Value Reliably

62. **There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable property is inactive (e.g., there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at historical cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure that investment property using the historical cost model in IPSAS 45 for owned investment property or in**

accordance with IPSAS 43 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply IPSAS 43 or IPSAS 45 until disposal of the investment property.

62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the historical cost model in accordance with IPSAS 45 for owned assets or IPSAS 43 for investment property held by a lessee as a right-of-use asset.

62B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be measured reliably.

63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the historical cost model in accordance with IPSAS 45 or IPSAS 43, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the historical cost model for one investment property, the entity shall continue to account for each of the remaining properties using the current value model.

64. **If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.**

Historical Cost Model

65. **After initial recognition, an entity that chooses the historical cost model shall measure investment property:**

(a) **In accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);**

(b) **In accordance with IPSAS 43 if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with IPSAS 44; and**

(c) **In accordance with the requirements in IPSAS 45 for the historical cost model in all other cases.**

Transfers

66. **An entity shall transfer a property to or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include:**

(a) **Commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;**

(b) **Commencement of development with a view to sale, for a transfer from investment property to inventories;**

(c) **End of owner-occupation, for a transfer from owner-occupied property to investment property; and**

(d) **Inception of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.**

(e) [Deleted]

67. A government's use of property may change over time. For example, a government may decide to occupy a building currently used as an investment property, or to convert a building currently used as naval quarters or for administrative purposes into a hotel and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as property, plant, and equipment until its occupation ceased and it is reclassified as an investment property.

68. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

69. A government property department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the government decided to hold the building for its ability to generate rent revenue and its capital appreciation potential, it would be reclassified as an investment property on commencement of any subsequent operating lease.

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the current value model for investment property. When an entity uses the historical cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

71. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with IPSAS 43, IPSAS 45 or IPSAS 12, shall be its fair value at the date of change in use.**

72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IPSAS 45 for owned property and IPSAS 43 for property held by a lessee as a right-of-use asset up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with IPSAS 45.**

73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or right-of-use asset) and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IPSAS 45 or IPSAS 43, and its fair value in the same way as a revaluation in accordance with IPSAS 45. In other words:

(a) Any resulting decrease in the carrying amount of the property is recognized in surplus or deficit. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.

(b) Any resulting increase in the carrying amount is treated as follows:

(i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in surplus or deficit. The amount recognized in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) if no impairment loss had been recognized.

(ii) Any remaining part of the increase is credited directly to net assets/equity in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in net assets/equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

74. **For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in surplus or deficit.**

75. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

Guidance on Initially Measuring Self-Constructed Investment Property at Fair Value

76. **When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, or when its fair value becomes reliably measurable (whichever is earlier), any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in surplus or deficit.**

Disposals

77. **An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.**

78. The disposal of an investment property may be achieved by sale or by entering into a finance lease. The date of disposal for the investment property is the date the recipient obtains control of the investment property in accordance with the requirements in IPSAS 47, *Revenue*. IPSAS 43 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the historical cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the current value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

80. **Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and shall be recognized in surplus or deficit (unless IPSAS 43 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.**

81. The amount of consideration to be included in the surplus or deficit arising from the derecognition of an investment property is determined in accordance with the requirements for determining the transaction

consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.

82. An entity applies IPSAS 19 or other standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

83. **Compensation from third parties for investment property that was impaired, lost, or given up shall be recognized in surplus or deficit when the compensation becomes receivable.**

84. Impairments or losses of investment property, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) Impairments of investment property are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(b) Retirements or disposals of investment property are recognized in accordance with paragraphs 77–82 of this Standard;

(c) Compensation from third parties for investment property that was impaired, lost, or given up is recognized in surplus or deficit when it becomes receivable; and

(d) The cost of assets restored, purchased, or constructed as replacements is determined in accordance with paragraphs 26–38 of this Standard.

Disclosure

Current Value Model and Historical Cost Model

85. The disclosures below apply in addition to those in IPSAS 43. In accordance with IPSAS 43, the owner of an investment property provides lessors' disclosures about leases into which it has entered. A lessee that holds an investment property as a right-of-use asset provides lessees' disclosures as required by IPSAS 43 and lessors' disclosures as required by IPSAS 43 for any operating leases into which it has entered.

86. **An entity shall disclose:**

(a) **Whether it applies the current value or the historical cost model;**

(b) [Deleted]

(c) **When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;**

(d) [Deleted]

(e) **The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;**

(f) **The amounts recognized in surplus or deficit for:**

(i) **Rental revenue from investment property;**

(ii) **Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and**

(iii) **Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.**

(g) **The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and**

(h) **Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.**

Current Value Model

87. **In addition to the disclosures required by paragraph 86, an entity that applies the current value model in paragraphs 42–64 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:**

(a) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;**

(b) **Additions resulting from acquisitions through public sector combinations;**

(c) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

(d) **Net gains or losses from fair value adjustments;**

(e) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(f) **Transfers to and from inventories and owner-occupied property; and**

(g) **Other changes.**

88. **When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognized as separate assets and liabilities as described in paragraph 59, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognized lease liabilities that have been added back, and any other significant adjustments.**

89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in IPSAS 45 or in accordance with IPSAS 43, the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:**

(a) **A description of the investment property;**

(b) **An explanation of why fair value cannot be measured reliably;**

(c) **If possible, the range of estimates within which fair value is highly likely to lie; and**

(d) **On disposal of investment property not carried at fair value:**

(i) **The fact that the entity has disposed of investment property not carried at fair value;**

(ii) **The carrying amount of that investment property at the time of sale; and**

(iii) **The amount of gain or loss recognized.**

Current Value Measurement

89A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For investment properties that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

89B. To meet the objectives in paragraph 89A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 89A, an entity shall disclose additional information necessary to meet those objectives.

89C. To meet the objectives in paragraph 89A, an entity shall disclose, at a minimum, the following information for each class of investment property (see paragraph 89D for information on determining appropriate classes of investment property) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) The fair value measurement at the end of the reporting period;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(d) For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investment properties held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

89D. An entity shall determine the appropriate disaggregation of investment property on the basis of the following:

(a) The nature, characteristics and risks of the investment property; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of investment property for which disclosures about fair value measurements should be provided requires judgment. Investment property will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation of investment property, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

89E. For each class of investment property not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 89C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 89C(c). For such investment properties, an entity does not need to provide the other disclosures required by this Standard.

89F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Historical Cost Model

90. **In addition to the disclosures required by paragraph 86, an entity that applies the historical cost model in paragraph 65 shall disclose:**

(a) **The depreciation methods used;**

(b) **The useful lives or the depreciation rates used;**

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

(d) **The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:**

(i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;**

(ii) **Additions resulting from acquisitions through public sector combinations;**

(iii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

(iv) **Depreciation;**

(v) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(vii) **Transfers to and from inventories and owner-occupied property; and**

(viii) **Other changes; and**

(e) **The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot measure the fair value of the investment property reliably, the entity shall disclose:**

(i) **A description of the investment property;**

(ii) **An explanation of why fair value cannot be measured reliably; and**

(iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

Transitional Provisions

91. [Deleted]

92. [Deleted]

93. [Deleted]

Current Value Model

94. [Deleted]

95. [Deleted]

96. [Deleted]

97. An entity that (a) has previously applied IPSAS 16 (2001), and (b) elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property, shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition:

(a) If the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (measured on a basis that satisfies the definition of fair value and the guidance in Appendix D of IPSAS 46), the entity is encouraged, but not required:

(i) To adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and

(ii) To restate comparative information for those periods; and

(b) If the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.

Historical Cost Model

98. [Deleted]

99. [Deleted]

100. **For entities that have previously applied IPSAS 16 (2001), the requirements of paragraphs 36–38 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**

IPSAS 43

100A. **An entity applying IPSAS 43, and its related amendments to this Standard, for the first time shall apply the transition requirements in IPSAS 43 to its investment property held as a right-of-use asset.**

Transfers of Investment Property

100B. *Improvements to IPSAS, 2018*, issued in October 2018, amended paragraphs 66 and 68. An entity shall apply those amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application). At the date of initial application, an entity shall reassess the classification of property held at that date and, if applicable, reclassify property applying paragraphs 9–18 to reflect the conditions that exist at that date.

100C. Notwithstanding the requirements in paragraph 100B, an entity is permitted to apply the amendments to paragraphs 66 and 68 retrospectively in accordance with IPSAS 3 if, and only if, that is possible without the use of hindsight.

100D. If, in accordance with paragraph 100B, an entity reclassifies property at the date of initial application, the entity shall:

(a) Account for the reclassification applying the requirements in paragraphs 70–75. In applying paragraphs 70–75, an entity shall:

(i) Read any reference to the date of change in use as the date of initial application; and

(ii) Recognize any amount that, in accordance with paragraphs 70–75, would have been recognized in surplus or deficit as an adjustment to the opening balance of accumulated surplus or deficit at the date of initial application.

(b) Disclose the amounts reclassified to, or from, investment property in accordance with paragraph 100B. The entity shall disclose those amounts reclassified as part of the reconciliation of the carrying amount of investment property at the beginning and end of the period as required by paragraphs 87 and 90.

Effective Date

101. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

101A. **Paragraphs 12, 13, 40, 57, 59, 62, 63, and 66 were amended, paragraph 29 was deleted and paragraphs 62A and 62B were added by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2011. An entity is encouraged to apply the amendments to investment property under construction from any date before January 1, 2011 provided that the fair values of investment properties under construction were determined at those dates. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact and at the same time apply the amendments to paragraphs 8 and 107A of IPSAS 17.**

101B. **Paragraphs 91, 92, 93, 94, 95, 96, 98, 99 and 102 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

101C. **Paragraph 40 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

101D. **Paragraphs 3 and 4 were deleted and paragraph 9 was amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

101E. **Paragraph 18A was added and paragraphs 87 and 90 amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

101F. **Paragraphs 76 and 97 were amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

101G. **Paragraphs 66 and 68 were amended, and paragraphs 100B–100D added, by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019, it shall disclose that fact.**

101H. **IPSAS 43 issued in January 2022, amended the scope of IPSAS 16 by defining investment property to include both owned investment property and property held by a lessee as a right-of-use asset. Paragraphs 7, 10, 12, 13, 20, 26, 27, 39, 49, 50, 59, 62, 62A, 63, 65, 71, 72, 73, 78, 80, 85, 86, 88, and 89 were amended, paragraphs 25A, 38A, 41A, 41B, 41C, 49A and 100A and its related heading were**

added, and paragraphs 5, 8, 34, 35 and 43 were deleted by IPSAS 43. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.

101I. **Paragraphs 65, 87 and 90 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

101J. **Paragraphs 6, 10, 13, 19, 33, 39, 62, 62A, 63, 65, 71-73, and 89 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

101K. **Paragraphs 33, 38, 39, 40, 41, 41A, 41C, 42, 49, 49A, 50, 57, 59, 62, 62A, 62B, 63, 65, 70, 79, 86, 87, 89, 90 and 97 and the related headings of paragraphs 42, 62, 65, 86, 87, 89A, 90, 97 and 100 were amended, paragraphs 89A–89F were added, and paragraphs 45–48, 51–56, 58, 60, and 86(d) were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

101L. **Paragraphs 13, 78, and 81 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

101M. **Paragraphs 89A, and 89C(a)-89C(g) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

101N. **Paragraph 6(c) was added by IPSAS 51, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

102. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal of IPSAS 16 (2001)

103. This Standard supersedes IPSAS 16, *Investment Property*, issued in 2001.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 16.

Revision of IPSAS 16 as a result of the IASB's General Improvements Project 2003

Background

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

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

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IAS)[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 16, issued in December 2001, was based on IAS 40 (2000), *Investment Property*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 40 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 40 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 16 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 16 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 40 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

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[1] The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

[2] The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 16 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC8. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 16 as a result of *Improvements to IPSAS*, 2018

BC9. Paragraph 76 included requirements regarding the measurement of self-constructed investment property that will be carried at fair value following its transfer from another class of asset once an entity completed its construction or development. As a result of the amendments made by *Improvements to IPSAS* issued in January 2010, investment property under construction is now within the scope of IPSAS 16, and fair value measurement may commence during construction. Consequently, the IPSASB decided to amend paragraph 76.

BC10. Paragraph 97 includes transitional provisions for those entities that elect, for the first time, to classify and account for some or all eligible property interests held under operating leases as investment property. These provisions have been restated following the deletion of other transitional provisions (to which paragraph 97 previously referred) as a result of the issuance of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* in 2015.

BC11. The IPSASB reviewed the revisions to IAS 40 included in the narrow scope amendments titled *Transfers of Investment Property* (Amendments to IAS 40) issued by the IASB in December 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 16 as a result of IPSAS 46, *Measurement*

BC12. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to update measurement terminology and disclosure requirements for consistency with IPSAS 46, remove guidance on measurement in IPSAS 16 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Revision of IPSAS 16 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC13. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC14. In August 2024, the IPSASB published ED 90, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC15. The IPSASB noted that:

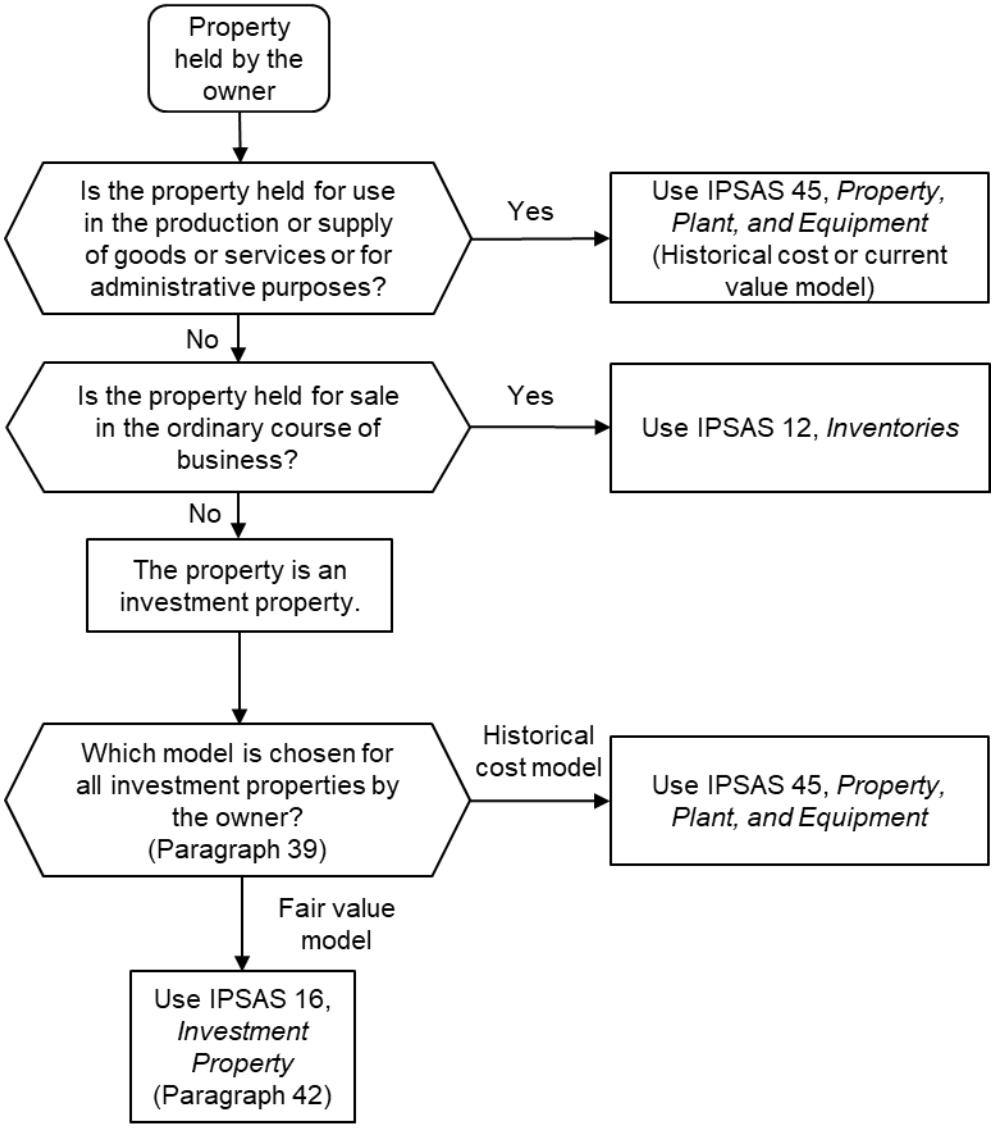
(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

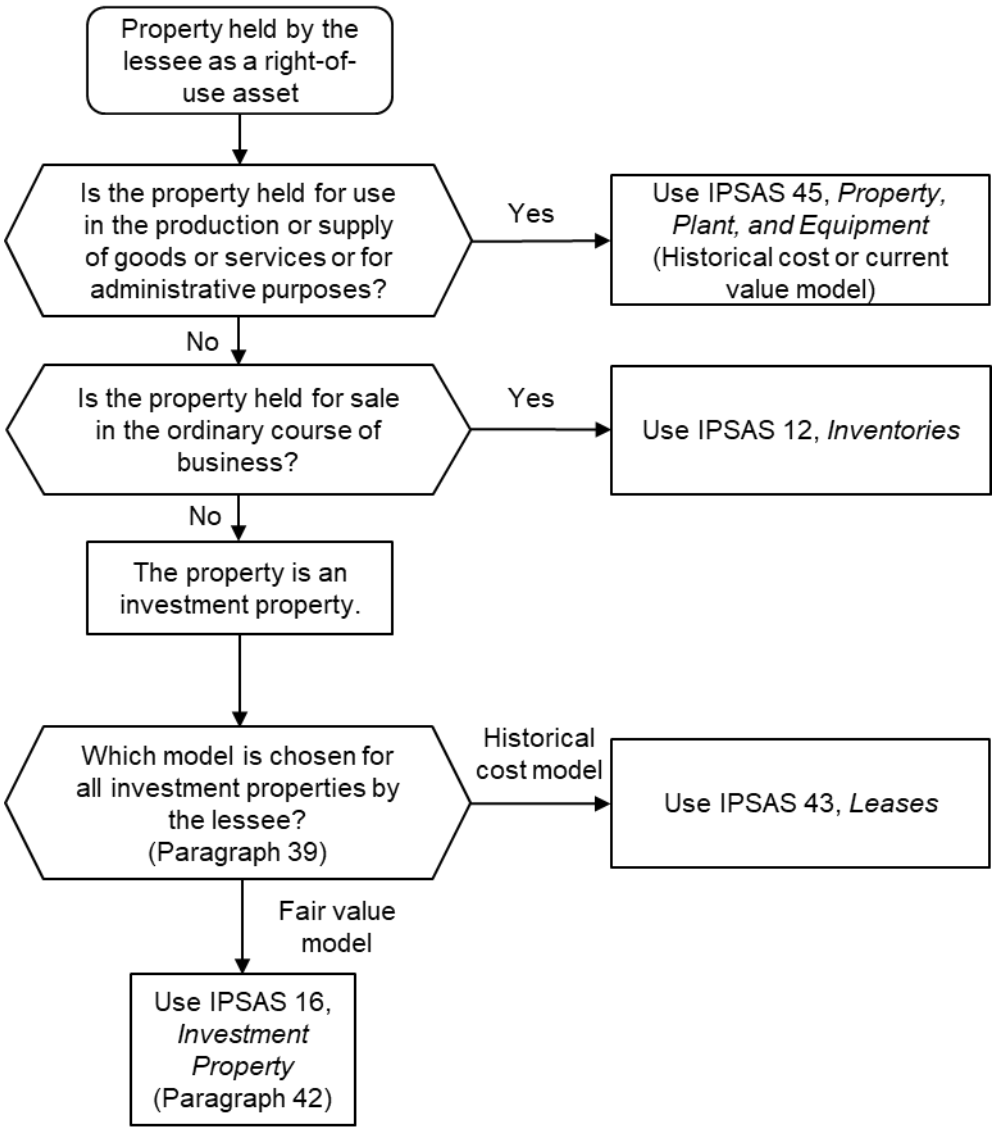
(b) The IPSASB agreed that the removal of ‘recurring’ in paragraphs that do not stipulate ‘in the statement of financial position after initial recognition’ could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC16. In responding to constituents’ comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

Illustrative Decision Trees

These decision trees accompany, but are not part of, IPSAS 16.




Property held by the lessee as a right-of-use asset
Is the property held for use in the production or supply of goods or services or for administrative purposes?
Yes
Use IPSAS 45, *Property, Plant, and Equipment* (Historical cost or current value model)
No
Is the property held for sale in the ordinary course of business?
Yes
Use IPSAS 12, *Inventories*
No
The property is an investment property.
Which model is chosen for all investment properties by the lessee? (Paragraph 39)
Historical cost model
Use IPSAS 43, *Leases*
Fair value model
Use IPSAS 16, *Investment Property* (Paragraph 42)

COMPARISON WITH IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), *Investment Property* and includes amendments made to IAS 40 as part of the *Improvements to IFRS* issued in May 2008. At the time of initially issuing this Standard, the IPSASB had not considered the applicability of IFRS 4, *Insurance Contracts*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities; therefore IPSAS 16 did not reflect amendments made to IAS 40 consequent upon the issue of those IFRS. The IPSASB has subsequently issued IPSAS 44, *Non-current Assets Held for sale and Discontinued Operations* in May 2022. Therefore, all amendments made to IAS 40 from the issuance of IFRS 5 are now reflected in IPSAS 16. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows. Such property is accounted for in accordance with IPSAS 45, *Property, Plant, and Equipment*.
- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant example is the use of the term “statement of financial performance” in IPSAS 16. The equivalent term in IAS 40 is “income statement.”
- IPSAS 16 does not use the term “income,” which in IAS 40 has a broader meaning than the term “revenue.”

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International Public Sector Accounting Standard (IPSAS) 17, *Property, Plant, and Equipment* has been superseded by IPSAS 45, *Property, Plant, and Equipment*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2025. As a result, IPSAS 17 is no longer applicable and has been removed.

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IPSAS 18, *SEGMENT REPORTING*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 14 (Revised 1997), *Segment Reporting*, published by the International Accounting Board (IASB®). Extracts from IAS 14 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 18, *SEGMENT REPORTING*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 18, *Segment Reporting* was issued in June 2002.

Since then, IPSAS 18 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 17, *Property, Plant, and Equipment* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 18

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
16	Amended	*The Applicability of IPSAS* April 2016
24	Amended	*The Applicability of IPSAS* April 2016
27[1]	Amended	IPSAS 3 December 2006 IPSAS 37 January 2015 IPSAS 47 May 2023
32	Amended	IPSAS 37 January 2015
33	Amended	IPSAS 43 January 2022

[1] Sub-paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
34	Amended	IPSAS 40 January 2017
35	Amended	IPSAS 43 January 2022
37	Amended	IPSAS 17 December 2006 IPSAS 40 January 2017 IPSAS 45 May 2023
38	Amended	*Improvements to IPSAS* April 2016 *The Applicability of IPSAS* April 2016
39	Amended	IPSAS 47 May 2023
41	Amended	IPSAS 35 January 2015 *The Applicability of IPSAS* April 2016
57	Amended	IPSAS 3 December 2006
69	Amended	IPSAS 3 December 2006 *Improvements to IPSAS* April 2016
70	Amended	IPSAS 3 December 2006
76A	New	IPSAS 33 January 2015
76B	New	IPSAS 37 January 2015
76C	New	*Improvements to IPSAS* April 2016
76D	New	*The Applicability of IPSAS* April 2016
76E	New	IPSAS 40 January 2017
76F	New	IPSAS 43 January 2022
76G	New	IPSAS 45 May 2023
76H	New	IPSAS 47 May 2023
77	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
IE	Amended	IPSAS 3 December 2006 *Improvements to IPSAS* November 2010

IPSAS 18, *SEGMENT REPORTING*

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International Public Sector Accounting Standard 18, *Segment Reporting*, is set out in the objective and paragraphs 1–77. All the paragraphs have equal authority. IPSAS 18 should be read in the context of its objective, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will:

(a) Help users of the financial statements to better understand the entity's past performance, and to identify the resources allocated to support the major activities of the entity; and

(b) Enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the presentation of segment information.**

2. [Deleted]

3. [Deleted]

4. **This Standard shall be applied in complete sets of published financial statements that comply with IPSAS.**

5. A complete set of financial statements includes a statement of financial position, statement of financial performance, cash flow statement, a statement showing changes in net assets/equity, and notes, as provided in IPSAS 1.

6. **If both consolidated financial statements of a government or other economic entity and the separate financial statements of the parent entity are presented together, segment information need be presented only on the basis of the consolidated financial statements.**

7. In some jurisdictions, the consolidated financial statements of the government or other economic entity and the separate financial statements of the controlling entity are compiled and presented together in a single report. Where this occurs, the report that contains the government's or other controlling entity's consolidated financial statements needs to present segment information only for the consolidated financial statements.

Definitions

8. [Deleted]

9. **The following term is used in this Standard with the meaning specified:**

   A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives, and (b) making decisions about the future allocation of resources.

   Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

10. Governments and their agencies control significant public resources, and operate to provide a wide variety of goods and services to their constituents in differing geographical regions and in regions with differing socio-economic characteristics. These entities are expected, and in some cases formally required, to use those resources efficiently and effectively to achieve the entity's objectives. Entity-wide and consolidated financial statements provide an overview of (a) the assets controlled and liabilities incurred by the reporting entity, (b) the cost of services provided, and (c) the taxation revenue, budget allocations, and cost recoveries generated to fund the provision of those services. However, this aggregate information does not provide information

about the specific operational objectives and major activities of the reporting entity and the resources devoted to, and costs of, those objectives and activities.

11. In most cases, the activities of the entity are so broad, and encompass so wide a range of different geographical regions, or regions with different socio-economic characteristics, that it is necessary to report disaggregated financial and non-financial information about particular segments of the entity to provide relevant information for accountability and decision-making purposes.

Reporting by Segments

12. **An entity shall identify its separate segments in accordance with the requirements of paragraph 9 of this Standard, and shall present information about those segments as required by paragraphs 51–75 of this Standard.**

13. Under this Standard, public sector entities will identify as separate segments each distinguishable activity or group of activities for which financial information should be reported, for purposes of (a) evaluating the past performance of the entity in achieving its objectives, and (b) making decisions about the allocation of resources by the entity. In addition to disclosure of the information required by paragraphs 51–75 of this Standard, entities are also encouraged to disclose additional information about reported segments as identified by this Standard or as considered necessary for accountability and decision-making purposes.

Reporting Structures

14. In most cases, the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to the governing body and the most senior manager of the entity. In most cases, the segments reported to the governing body and senior manager will also reflect the segments reported in the financial statements. This is because the governing board and senior manager will require information about segments to enable them (a) to discharge their managerial responsibilities and to evaluate the performance of the entity in achieving its objectives in the past, and (b) to make decisions about the allocation of resources by the entity in the future.

15. Determining the activities that should be grouped as separate segments and reported in the financial statements for accountability and decision-making purposes involves judgment. In making that judgment, preparers of the financial statements will consider such matters as:

    (a) The objective of reporting financial information by segment as identified in paragraph 9 above;

    (b) The expectations of members of the community and their elected or appointed representatives regarding the key activities of the entity;

    (c) The qualitative characteristics of financial reporting as identified in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*; and

    (d) Whether a particular segment structure reflects the basis on which the governing body and senior manager require financial information to enable them to assess the past performance of the entity in achieving its objectives, and to make decisions about the allocation of resources to achieve entity objectives in the future.

16. At the whole-of-government level, financial information is often aggregated and reported in a manner that reflects, for example:

    (a) Major economic classifications of activities undertaken by general government, such as health, education, defense, and welfare (these may reflect the Government Finance Statistics (GFS) functional classifications of government), and major trading activities undertaken by commercial public sector entities, such as state-owned power stations, banks, and insurance entities; or

(b) Portfolio responsibilities of individual ministers or members of executive government. These often, but not always, reflect the economic classifications in (a) above – differences may occur because portfolio responsibilities may aggregate more than one of the economic classifications or cut across those classifications.

Service Segments and Geographical Segments

17. The types of segments reported to the governing body and senior manager of an entity are frequently referred to as service segments or geographical segments. These terms are used in this Standard with the following meanings:

(a) A service segment refers to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and

(b) A geographical segment is a distinguishable component of an entity that is engaged in providing outputs or achieving particular operating objectives within a particular geographical area.

18. Government departments and agencies are usually managed along service lines, because this reflects the way in which (a) major outputs are identified, (b) their achievements monitored, and (c) their resource needs identified and budgeted. An example of an entity that reports internally on the basis of service lines or service segments is an education department whose organizational structure and internal reporting system reflects primary, secondary, and tertiary educational activities and outputs as separate segments. This basis of segmentation may be adopted internally, because the skills and facilities necessary to deliver the desired outputs and outcomes for each of these broad educational activities are perceived to be different. In addition, key financial decisions faced by management include determination of the resources to allocate to each of those outputs or activities. In these cases, it is likely that reporting externally on the basis of service segments will also satisfy the requirements of this Standard.

19. Factors that will be considered in determining whether outputs (goods and services) are related and should be grouped as segments for financial reporting purposes include:

(a) The primary operating objectives of the entity and the goods, services, and activities that relate to the achievement of each of those objectives, and whether resources are allocated and budgeted on the basis of groups of goods and services;

(b) The nature of the goods or services provided or activities undertaken;

(c) The nature of the production process and/or service delivery and distribution process or mechanism;

(d) The type of customer or consumer for the goods or services;

(e) Whether this reflects the way in which the entity is managed and financial information is reported to senior management and the governing board; and

(f) If applicable, the nature of the regulatory environment, (for example, department or statutory authority) or sector of government (for example finance sector, public utilities, or general government).

20. An entity may be organized and report internally to the governing body and the senior manager on a regional basis – whether within or across national, state, local, or other jurisdictional boundaries. Where this occurs, the internal reporting system reflects a geographical segment structure.

21. A geographical segment structure may be adopted where, for example, the organizational structure and internal reporting system of an education department is structured on the basis of regional educational outcomes, because the key performance assessments and resource allocation decisions to be made by the governing body and senior manager are determined by reference to regional achievements and regional

needs. This structure may have been adopted to preserve regional autonomy of educational needs and delivery of education services, or because operating conditions or educational objectives are substantially different from one region to another. It may also have been adopted simply because management believes that an organizational structure based on regional devolution of responsibility better serves the objectives of the organization. In these cases, resource allocation decisions are initially made, and subsequently monitored, by the governing body and the senior manager on a regional basis. Detailed decisions about the allocation of resources to particular functional activities within a geographical region are then made by regional management, consistent with educational needs within that region. In these cases, it is likely that reporting information by geographical segments in the financial statements will also satisfy the requirements of this Standard.

22. Factors that will be considered in determining whether financial information should be reported on a geographical basis include:

(a) Similarity of economic, social, and political conditions in different regions;

(b) Relationships between the primary objectives of the entity and the different regions;

(c) Whether service delivery characteristics and operating conditions differ in different regions;

(d) Whether this reflects the way in which the entity is managed and financial information is reported to senior managers and the governing board; and

(e) Special needs, skills, or risks associated with operations in a particular area.

Multiple Segmentation

23. In some cases, an entity may report to the governing body and senior manager segment revenue, expense, assets, and liabilities on the basis of more than one segment structure, for example by both service and geographical segments. Reporting on the basis of both service segments and geographical segments in the external financial statements often will provide useful information if the achievement of an entity's objectives is strongly affected both by the different products and services it provides and the different geographical areas to which those goods and services are provided. Similarly, at the whole-of-government level, a government may adopt a basis of disclosure that (a) reflects general government, public finance sector and trading sector disclosures, and (b) supplements the general government sector analysis with, for example, segment disclosures of major purpose or functional sub-categories. In these cases, the segments may be reported separately or as a matrix. In addition, a primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.

Reporting Structures not Appropriate

24. As noted above, in most cases the segments for which information is reported internally to the governing body and the most senior manager of the entity, for the purpose of evaluating the entity's past performance and for making decisions about the future allocation of resources, will reflect those identified in budget documentation and will also be adopted for external reporting purposes in accordance with the requirements of this Standard. However, in some cases an entity's internal reporting to the governing body and the senior manager may be structured to aggregate and report on a basis that distinguishes revenues, expenses, assets, and liabilities related to budget-dependent activities from those of trading activities, or which distinguishes budget-dependent entities from commercial public sector entities. Reporting segment information in the financial statements on the basis of only these segments is unlikely to meet the objectives specified for this Standard. This is because these segments are unlikely to provide information that is relevant to users about, for example, the performance of the entity in achieving its major operating objectives. IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, includes requirements for

governments that elect to disclose financial information about the general government sector (GGS) as defined in statistical bases of reporting.

25. In some cases, the disaggregated financial information reported to the governing body and the senior manager may not report expenses, revenues, assets, and liabilities by service segment, geographical segment, or by reference to other activities. Such reports may be constructed to reflect only expenditures by nature (for example, wages, rent, supplies, and capital acquisitions) on a line item basis that is consistent with the budget appropriation or other funding or expenditure authorization model applicable to the entity. This may occur where the purpose of financial reporting to the governing body and senior management is to evidence compliance with spending mandates rather than for purposes of (a) evaluating the past performance of the entity's major activities in achieving their objectives, and (b) making decisions about the future allocation of resources. When internal reporting to the governing body and senior manager is structured to report only compliance information, reporting externally on the same basis as the internal reporting to the governing body and senior manager will not meet the requirement of this Standard.

26. When an entity's internal reporting structure does not reflect the requirements of this Standard, for external reporting purposes the entity will need to identify segments that satisfy the definition of a segment in paragraph 9 and disclose the information required by paragraphs 51–75.

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

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

Segment accounting policies are the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.

Segment assets are those operating assets that are employed by a segment in its operating activities, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments, or other revenue-producing assets.

Segment assets do not include income tax or income tax-equivalent assets that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.

Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue.

Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment, and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include:

(a) **Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;**

(b) **Losses on sales of investments or losses on extinguishment of debt, unless the segment's operations are primarily of a financial nature;**

(c) **An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method;**

(d) **Income tax or income tax-equivalent expense that is recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents; or**

(e) **General administrative expenses, head office expenses, and other expenses that arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.**

For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidated or entity financial statements.

Segment liabilities are those operating liabilities that result from the operating activities of a segment, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities.

Segment liabilities do not include income tax or income tax equivalent liabilities that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.

Segment revenue is revenue reported in the entity's statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or the provision of goods or services to other parties or from transactions with other segments of the same entity. Segment revenue does not include:

(a) **Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or**

(b) **Gains on sales of investments or gains on extinguishment of debt, unless the segment's operations are primarily of a financial nature.**

Segment revenue includes an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, only if those items are included in consolidated or total entity revenue.

Attributing Items to Segments

28. The definitions of segment revenue, segment expense, segment assets, and segment liabilities include amounts of such items that are directly attributable to a segment, and amounts of such items that can be allocated to a segment on a reasonable basis.

29. An entity looks to its internal financial reporting system as the starting point for identifying those items that can be directly attributed, or reasonably allocated, to segments. That is, where segments used for internal reporting purposes are adopted, or form the basis of segments adopted, for general purpose financial statements, there is a presumption that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for the purpose of measuring the segment revenue, segment expense, segment assets, and segment liabilities.

30. In some cases, a revenue, expense, asset, or liability may have been allocated to segments for internal financial reporting purposes on a basis that is understood by entity management, but that could be deemed subjective, arbitrary, or difficult to understand by external users of financial statements. Such an allocation would not constitute a reasonable basis under the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard. Conversely, an entity may choose not to allocate some item of revenue, expense, asset, or liability for internal financial reporting purposes, even though a reasonable basis for doing so exists. Such an item is allocated pursuant to the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard.

31. Public sector entities can generally identify (a) the costs of providing certain groups of goods and services or of undertaking certain activities, and (b) the assets that are necessary to facilitate those activities. This information is needed for planning and control purposes. However, in many cases the operations of government agencies and other public sector entities are funded by “block” appropriations, or appropriations on a “line item” basis reflecting the nature of the major classes of expenses or expenditures. These “block” or “line item” appropriations may not be related to specific service lines, functional activities, or geographical regions. In some cases, it may not be possible to directly attribute revenue to a segment or to allocate it to a segment on a reasonable basis. Similarly, some assets, expenses, and liabilities may not be able to be directly attributed, or allocated on a reasonable basis, to individual segments, because they support a wide range of service delivery activities across a number of segments or are directly related to general administration activities that are not identified as a separate segment. The unattributed or unallocated revenue, expense, assets, and liabilities would be reported as an unallocated amount in reconciling the segment disclosures to the aggregate entity revenue as required by paragraph 64 of this Standard.

32. Governments and their agencies may enter into arrangements with private sector entities for the delivery of goods and services, or to conduct other activities. In some jurisdictions, these arrangements take the form of a joint venture or an investment in an associate that is accounted for by the equity method of accounting. Where this is the case, segment revenue will include the segment’s share of the equity accounted net surplus (deficit), where the equity accounted surplus (deficit) is included in entity revenue, and it can be directly attributed or reliably allocated to the segment on a reasonable basis.

Segment Assets, Liabilities, Revenue, and Expense

33. Examples of segment assets include current assets that are used in the operating activities of the segment: property, plant, and equipment; right-of-use assets; and intangible assets. If a particular item of depreciation or amortization is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head office purposes. For example:

    (a) The office of the central administration and policy development unit of a department of education is not included in segments reflecting the delivery of primary, secondary and tertiary educational services; or

    (b) The parliamentary or other general assembly building is not included in segments reflecting major functional activities such as education, health, and defense when reporting at the whole-of-government level.

    Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

34. The consolidated financial statements of a government or other entity may encompass operations acquired in a public sector combination that gives rise to purchased goodwill (guidance on accounting for the acquisition of an operation is included in IPSAS 40, *Public Sector Combinations*). In these cases, segment assets will include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related impairment of goodwill.

35. Examples of segment liabilities include trade and other payables, accrued liabilities, advances from members of the community for the provision of partially subsidized goods and services in the future, product warranty provisions arising from any commercial activities of the entity, and other claims relating to the provision of goods and services. Segment liabilities do not include borrowings, liabilities related to right-of-use assets, and other liabilities that are incurred for financing rather than operating purposes. If interest expense is included in segment expense, the related interest-bearing liability is included in segment liabilities.

36. The liabilities of segments whose operations are not primarily of a financial nature do not include borrowings and similar liabilities, because segment revenues and expenses do not include financing revenues and expenses. Further, because debt is often issued at the head office level or by a central borrowing authority on an entity-wide or government-wide basis, it is often not possible to directly attribute, or reasonably allocate, the interest-bearing liability to the segment. However, if the financing activities of the entity are identified as a separate segment, as may occur at the whole-of-government level, expenses of the “finance” segment will include interest expense, and the related interest-bearing liabilities will be included in segment liabilities.

37. IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an operation acquired in an acquisition. Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an operation acquired in an acquisition, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity’s separate or the controlled entity’s individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the current value model in IPSAS 45, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

38. In some jurisdictions, a government or government entity may control a commercial public sector entity that is subject to income tax or income tax equivalents. These entities may be required to apply accounting standards such as IAS 12, *Income Taxes*, which prescribe the accounting treatment of income taxes or income tax equivalents. Such standards may require the recognition of income tax assets and liabilities in respect of income tax expenses, or income tax-equivalent expenses, which are recognized in the current period and are recoverable or repayable in future periods. These assets and liabilities are not included in segment assets or segment liabilities because they arise as a result of all the activities of the entity as a whole and the tax arrangements in place in respect of the entity. However, assets representing taxation revenue receivable that is controlled by a taxing authority will be included in segment assets of the authority if they can be directly attributed to that segment or allocated to it on a reliable[2] basis.

39. Some guidance for cost allocation can be found in other IPSAS and may be useful in attributing and allocating costs to segments. For example, IPSAS 12, *Inventories*, provides guidance for attributing and allocating costs to inventories.

40. IPSAS 2, *Cash Flow Statements* provides guidance on whether bank overdrafts should be included as a component of cash or should be reported as borrowings.

41. The financial statements for the whole-of-government, and certain other controlling entities, will require the consolidation of a number of separate entities such as departments, agencies, and commercial public sector entities. In preparing these consolidated financial statements, transactions and balances between controlled entities will be eliminated in accordance with IPSAS 35, *Consolidated Financial Statements.* However, segment revenue, segment expense, segment assets, and segment liabilities are determined before balances and transactions between entities within the economic entity are eliminated as part of the

[2] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

consolidation process, except to the extent that such intra-economic entity balances and transactions are between entities within a single segment.

42. While the accounting policies used in preparing and presenting the financial statements of the entity as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as the method of pricing inter-segment transfers, and the basis for allocating revenues and expenses to segments.

Segment Accounting Policies

43. **Segment information shall be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.**

44. There is a presumption that the accounting policies that the governing body and management of an entity have chosen to use in preparing the consolidated or entity-wide financial statements are those that the governing body and management believe are the most appropriate for external reporting purposes. Since the purpose of segment information is to help users of financial statements better understand and make more informed judgments about the entity as a whole, this Standard requires the use, in preparing segment information, of the accounting policies that the governing body and management have chosen for preparation of the consolidated or entity-wide financial statements. That does not mean, however, that the consolidated or entity accounting policies are to be applied to segments as if the segments were separate reporting entities. A detailed calculation done in applying a particular accounting policy at the entity-wide level may be allocated to segments if there is a reasonable basis for doing so. Employee entitlement calculations, for example, are often done for an entity as a whole, but the entity-wide figures may be allocated to segments based on salary and demographic data for the segments.

45. As noted in paragraph 42, accounting policies that deal with entity-only issues such as inter-segment pricing may need to be developed. IPSAS 1 requires disclosure of accounting policies necessary to understand the financial statements. Consistent with those requirements, segment-specific policies may need to be disclosed.

46. This Standard permits the disclosure of additional segment information that is prepared on a basis other than the accounting policies adopted for the consolidated or entity financial statements provided that:

    (a) The information is relevant for performance assessment and decision-making purposes; and

    (b) The basis of measurement for this additional information is clearly described.

Joint Assets

47. **Assets that are jointly used by two or more segments shall be allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.**

48. The way in which asset, liability, revenue, and expense items are allocated to segments depends on such factors as the nature of those items, the activities conducted by the segment, and the relative autonomy of that segment. It is not possible or appropriate to specify a single basis of allocation that should be adopted by all entities. Nor is it appropriate to force allocation of entity asset, liability, revenue, and expense items that relate jointly to two or more segments, if the only basis for making those allocations is arbitrary or difficult to understand. At the same time, the definitions of segment revenue, segment expense, segment assets, and segment liabilities are interrelated, and the resulting allocations should be consistent. Therefore, jointly used assets are allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments. For example, an asset is included in segment assets if, and only if, the related depreciation or amortization is included in measuring segment expense.

Newly Identified Segments

49. **If a segment is identified as a segment for the first time in the current period, prior period segment data that is presented for comparative purposes shall be restated to reflect the newly reported segment as a separate segment, unless it is impracticable to do so.**

50. New segments may be reported in financial statements in differing circumstances. For example, an entity may change its internal reporting structure from a service segment structure to a geographical segment structure, and management may consider it appropriate that this segment structure also be adopted for external reporting purposes. An entity may also undertake significant new or additional activities, or increase the extent to which an activity previously operating as an internal support service provides services to external parties. In these cases, new segments may be reported for the first time in the general purpose financial statements. Where this occurs, this Standard requires that prior period comparative data should be restated to reflect the current segment structure where practicable.

Disclosure

51. **The disclosure requirements in paragraphs 52–75 shall be applied to each segment.**

52. **An entity shall disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from other external sources, and segment revenue from transactions with other segments shall be separately reported.**

53. **An entity shall disclose the total carrying amount of segment assets for each segment.**

54. **An entity shall disclose the total carrying amount of segment liabilities for each segment.**

55. **An entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.**

56. An entity is encouraged, but not required, to disclose the nature and amount of any items of segment revenue and segment expense that are of such size, nature, or incidence that their disclosure is relevant to explain the performance of each segment for the period.

57. IPSAS 1 requires that when items of revenue or expense are material, their nature and amount of such items are disclosed separately. IPSAS 1 identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for restructurings; disposals of property, plant, and equipment; privatizations and other disposals of long-term investments; discontinued operations; litigation settlements; and reversals of provisions. The encouragement in paragraph 56 is not intended to change the classification of any such items or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

58. This Standard does not require a segment result to be disclosed. However, if a segment result is calculated and disclosed, it is an operating result that does not include finance charges.

59. An entity is encouraged but not required to disclose segment cash flows consistent with the requirements of IPSAS 2. IPSAS 2 requires that an entity present a cash flow statement that separately reports cash flows from operating, investing, and financing activities. It also requires the disclosure of information about certain cash flows. The disclosure of cash flow information about each segment can be useful in understanding the entity's overall financial position, liquidity, and cash flows.

60. An entity that does not disclose segment cash flows in accordance with IPSAS 2 is encouraged, but not required, to disclose for each reportable segment:

    (a) Segment expense for depreciation and amortization of segment assets;

(b) Other significant non-cash expenses; and

(c) Significant non-cash revenues that are included in segment revenue.

This will enable users to determine the major sources and uses of cash in respect of segment activities for the period.

61. **An entity shall disclose for each segment the aggregate of the entity's share of the net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, if substantially all of those associates' operations are within that single segment.**

62. While a single aggregate amount is disclosed pursuant to the requirements of paragraph 61, each associate, joint venture, or other equity method investment is assessed individually to determine whether its operations are substantially all within a segment.

63. **If an entity's aggregate share of the net surplus (deficit) of associates, joint venture, or other investments accounted for under the equity method is disclosed by segment, the aggregate investments in those associates and joint ventures shall also be disclosed by segment.**

64. **An entity shall present a reconciliation between the information disclosed for segments and the aggregated information in the consolidated or entity financial statements. In presenting the reconciliation, segment revenue shall be reconciled to entity revenue from external sources (including disclosure of the amount of entity revenue from external sources not included in any segment's revenue); segment expense shall be reconciled to a comparable measure of entity expense; segment assets shall be reconciled to entity assets; and segment liabilities shall be reconciled to entity liabilities.**

Additional Segment Information

65. As noted previously, it is anticipated that segments will usually be based on the major goods and services the entity provides, the programs it operates, or the activities it undertakes. This is because information about these segments provides users with relevant information about the performance of the entity in achieving its objectives, and enables the entity to discharge its accountability obligations. However, in some organizations, a geographical or other basis may better reflect the basis on which services are provided and resources allocated within the entity and, therefore, will be adopted for the financial statements.

66. This Standard adopts the view that disclosure of minimum information about both service segments and geographical segments is likely to be useful to users for accountability and decision-making purposes. Therefore, if an entity reports segment information on the basis of:

(a) The major goods and services the entity provides, the programs it operates, the activities it undertakes, or other service segments, it is also encouraged to report the following for each geographical segment that is reported internally to the governing body and the senior manager of the entity:

(i) Segment expense;

(ii) Total carrying amount of segment assets; and

(iii) Total outlay during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets); and

(b) Geographical segments or another basis not encompassed by (a), The entity is encouraged to also report the following segment information for each major service segment that is reported internally to the governing body and the senior manager of the entity:

(i) Segment expense;

(ii) Total carrying amount of segment assets; and

(iii) Total outlay during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets).

Other Disclosure Matters

67. **In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers shall be measured on the basis that they occur. The basis of pricing inter-segment transfers and any change therein shall be disclosed in the financial statements.**

68. **Changes in accounting policies adopted for segment reporting that have a material effect on segment information shall be disclosed, and prior period segment information presented for comparative purposes shall be restated, unless it is impracticable to do so. Such disclosure shall include a description of the nature of the change, the reasons for the change, the fact that comparative information has been restated or that it is impracticable to do so, and the financial effect of the change if it is reasonably determinable. If an entity changes the identification of its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, then for the purpose of comparison, an entity shall report segment data for both the old and the new bases of segmentation in the year in which it changes the identification of its segments.**

69. Changes in accounting policies adopted by the entity are dealt with in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.* IPSAS 3 requires that changes in accounting policy be made only (a) if required by an IPSAS, or (b) if the change will result in faithfully representative and more relevant information about transactions, other events, and conditions in the financial statements of the entity.

70. Changes in accounting policies applied at the entity level that affect segment information are dealt with in accordance with IPSAS 3. Unless a new IPSAS specifies otherwise, IPSAS 3 requires that:

(a) A change in accounting policy be applied retrospectively, and that prior period information be restated unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change;

(b) If retrospective application is not practicable for all periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date; and

(c) If it is impracticable to determine the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable.

71. Some changes in accounting policies relate specifically to segment reporting. Examples include changes in identification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported, but will not change aggregate financial information reported for the entity. To enable users to understand the changes and to assess trends, prior period segment information that is included in the financial statements for comparative purposes is restated, if practicable, to reflect the new accounting policy.

72. Paragraph 67 requires that, for segment reporting purposes, inter-segment transfers should be measured on the basis that the entity actually used to price those transfers. If an entity changes the method that it actually uses to price inter-segment transfers, that is not a change in accounting policy for which prior period segment data should be restated pursuant to paragraph 68. However, paragraph 67 requires disclosure of the change.

73. **If not otherwise disclosed in the financial statements or elsewhere in the annual report, an entity shall indicate:**

(a) **The types of goods and services included in each reported service segment;**

(b) **The composition of each reported geographical segment; and**

(c) **If neither a service nor geographical basis of segmentation is adopted, the nature of the segment and activities encompassed by it.**

Segment Operating Objectives

74. If not otherwise disclosed in the financial statements or elsewhere in the annual report, the entity is encouraged to disclose the broad operating objectives established for each segment at the commencement of the reporting period, and to comment on the extent to which those objectives were achieved.

75. To enable users to assess the performance of an entity in achieving its service delivery objectives, it is necessary to communicate those objectives to users. The disclosure of information about the composition of each segment, the service delivery objectives of those segments, and the extent to which those objectives were achieved will support this assessment. This information will also enable the entity to better discharge its accountability obligations. In many cases, this information will be included in the annual report as part of the report of the governing body or the senior manager. In such cases, disclosure of this information in the financial statements is not necessary.

Effective Date

76. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2003. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2003, it shall disclose that fact.**

76A. **Paragraph 77 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

76B. **IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 27 and 32. An entity shall apply those amendments when it applies IPSAS 37.**

76C. **Paragraph 69 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

76D. **Paragraphs 2 and 3 were deleted and paragraphs 16, 24, 38 and 41 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

76E. **Paragraphs 34 and 37 were amended by IPSAS 40*, Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

76F. **Paragraphs 33 and 35 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

76G. **Paragraph 37 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

76H. **Paragraphs 27 and 39 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

77. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 18.

Revision of IPSAS 18 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC1. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 18.

Summary of Required Disclosures

[¶xx] refers to paragraph xx in the Standard.

Disclosures

Total expense by segment [¶52]

Total revenue by segment [¶52]

Revenue from budget appropriation or similar allocation by segment [¶52]

Revenue from external sources (other than appropriation or similar allocation) by segment [¶52]

Revenue from transactions with other segments by segment [¶52]

Carrying amount of segment assets by segment [¶53]

Segment liabilities by segment [¶54]

Cost to acquire assets by segment [¶55]

Share of net surplus (deficit) of [¶61] and investment in [¶63] equity method associates or joint ventures by segment (if substantially all within a single segment)

Reconciliation of revenue, expense, assets and liabilities by segment [¶64]

Other Disclosures

Basis of pricing inter-segment transfers and any changes therein [¶67]

Changes in segment accounting policies [¶68]

Types of products and services in each service segment [¶73]

Composition of each geographical segment [¶73]

If neither a service nor geographical basis of segmentation is adopted, the nature of the segments and activities encompassed by each segment [¶73]

Qualitative Characteristics of Financial Reporting

IG1. [Deleted]

IG2. [Deleted]

Understandability

IG3. [Deleted]

IG4. [Deleted]

Relevance

IG5. [Deleted]

Materiality

IG6. [Deleted]

IG7. [Deleted]

Reliability

IG8. [Deleted]

Faithful Representation

IG9. [Deleted]

Substance Over Form

IG10. [Deleted]

Neutrality

IG11. [Deleted]

Prudence

IG12. [Deleted]

IG13. [Deleted]

Completeness

IG14. [Deleted]

Comparability

IG15. [Deleted]

IG16. [Deleted]

IG17. [Deleted]

IG18. [Deleted]

Constraints on Relevant and Reliable Information

Timeliness

IG19. If there is an undue delay in the reporting of information, it may lose its relevance. To provide information on a timely basis, it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

IG20. The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

IG21. In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Illustrative Example

This example accompanies, but is not part of, IPSAS 18.

The schedule and related note presented in this example illustrate the segment disclosures that this Standard would require for an education authority that is predominantly funded by appropriation, but (a) provides some educational services on a commercial basis to the employees of major corporations, and (b) has joined with a commercial venture to establish a private education foundation that operates on a commercial basis. The Authority has significant influence over, but does not control, that foundation. For illustrative purposes, the example presents comparative data for two years. Segment data is required for each year for which a complete set of financial statements is presented.

Schedule A—Information about Segments

(in millions of currency units)

	Primary/ Secondary		**Tertiary**		**Special Services**		**Other Services**		**Eliminations**		**Consolidated**	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
SEGMENT REVENUE												
Appropriation	48	40	22	23	10	10	7	7				
Fees from external sources	5	4	-	-	9	6	-	-				
Inter-segment transfers	10	6	6	7	2	4	2	2				
Total Segment Revenue	63	50	28	30	21	20	9	9	20	19	101	90
SEGMENT EXPENSE												
Salaries and wages	(39)	(31)	(13)	(13)	(13)	(13)	(2)	(2)				
Depreciation	(9)	(7)	(5)	(7)	(5)	(3)	(1)	(1)				
Other expenses	(12)	(11)	(10)	(9)	(5)	(5)	(2)	(2)				
Total Segment Expenses	(60)	(49)	(28)	(29)	(23)	(21)	(5)	(5)	20	19	(96)	(85)
Unallocated central expenses											(7)	(9)
Deficit from Operating Activities											(2)	(4)
Interest expense											(4)	(3)
Interest revenue											2	3

	Primary/ Secondary		Tertiary		Special Services		Other Services		Eliminations		Consolidated	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Share of net surpluses of associates							8	7			8	7
Surplus for the period											4	3
OTHER INFORMATION												
Segment assets	54	50	34	30	10	10	10	9			108	99
Investment in associates (equity method)							32	26			32	26
Unallocated central assets											35	30
Consolidated Total Assets											175	155
Segment liabilities	25	15	8	11	8	8	1	1			42	35
Unallocated central liabilities											40	55
Consolidated Total Liabilities											82	90
Capital expenditure	13	10	9	5	4	0	2	3				
Non-cash expense excluding depreciation	(8)	(2)	(3)	(3)	(2)	(2)	(1)	(1)				
Non-cash revenue	-	-	-	-	1	1	-	-				

The Authority is organized and reports to the governing body on the basis of four major functional areas: primary and secondary education; tertiary education; special education services; and other services, each headed by a director. Operations of the special education services segment includes provision of educational services on a commercial basis to the employees of major corporations. In providing these services to external parties, the commercial services unit of the segment uses, on a fee for service basis, services provided by the primary/secondary and tertiary segments. These inter-segment transfers are eliminated on consolidation.

Information reported about these segments is used by the governing board and senior management as a basis for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation

of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

The majority of the Authority's operations are domestic, except that as part of an aid program it has established facilities in Eastern Europe for the provision of secondary educational services. Total cost of services provided in Eastern Europe is 5 million (4 million in 20X1). Total carrying amount of the educational facilities in Eastern Europe are 3 million (6.5 million in 20X1). There were no outlays on the acquisition of capital assets in Eastern Europe during 20X2 or 20X1.

Inter-segment transfers: segment revenue and segment expense include revenue and expense arising from transfers between segments. Such transfers are usually accounted for at cost and are eliminated on consolidation. The amount of these transfers was 20 million (19 million in 19X1).

Investments in associates are accounted for using the equity method. The Authority owns 40% of the capital stock of EuroED Ltd, a specialist education foundation providing educational services internationally on a commercial basis under contract to multilateral lending agencies. The investment is accounted for by the equity method. The investment in, and the Authority's share of, EuroED's net profit are excluded from segment assets and segment revenue.

However they are shown separately under the other services segment, which is responsible for the administration of the investment in the associate.

A full report of the objectives established for each segment and the extent to which those objectives have been achieved is included in the Review of Operations, included elsewhere in this report.

COMPARISON WITH IAS 14

IPSAS 18 is drawn primarily from IAS 14 (revised 1997). The main differences between IPSAS 18 and IAS 14 are as follows:

- IPSAS 18 defines segments differently from IAS 14. IPSAS 18 requires entities to report segments on a basis appropriate for assessing past performance and making decision about the allocation of resources. IAS 14 requires business and geographical segments to be reported.
- IAS 14 requires disclosure of segment result, depreciation, and amortization of segment assets and other significant non-cash expenses. IPSAS 18 does not require the disclosure of segment result. IPSAS 18 encourages, but does not require, the disclosure of significant non-cash revenues that are included in segment revenue, segment depreciation, and other non-cash expenses or segment cash flows as required by IPSAS 2, *Cash Flow Statements*.
- IPSAS 18 does not require the disclosure of information about secondary segments, but encourages certain minimum disclosures about both service and geographical segments.
- IPSAS 18 does not specify quantitative thresholds that must be applied in identifying reportable segments.
- IPSAS 18 uses different terminology, in certain instances, from IAS 14. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” and “net assets/equity.” The equivalent terms in IAS 14 are “income,” “income statement,” and “equity.”

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IPSAS 19, *PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 37 (1998), *Provisions, Contingent Liabilities and Contingent Assets*, published by the International Accounting Standards Board (IASB®), and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* published by the IFRS® Interpretations Committee. Extracts from IAS 37, IFRIC 1, and IFRIC 5 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 19, *PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* was issued in October 2002.

Since then, IPSAS 19 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- *Amendments to IPSAS Standards: Specific IFRIC Interpretations* (issued January 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Collective and Individual Services* (Amendments to IPSAS 19) (issued January 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- IPSAS 14, *Events after the Reporting Date* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 19

Paragraph Affected	How Affected	Affected By
1	Amended	*Improvements to IPSAS* October 2011 IPSAS 42 January 2019

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
4	Amended	*Improvements to IPSAS* October 2011 IPSAS 41 August 2018
4A	New	IPSAS 40 January 2017
5	Deleted	*Improvements to IPSAS* October 2011
6	Amended	*Improvements to IPSAS* April 2016 IPSAS 44 May 2022
6A	New	*Collective and Individual Services* January 2020
Heading above paragraph 7	Deleted	IPSAS 42 January 2019
7	Deleted	IPSAS 42 January 2019
8	Deleted	IPSAS 42 January 2019
9	Deleted	IPSAS 42 January 2019
10	Deleted	IPSAS 42 January 2019
11	Deleted	IPSAS 42 January 2019
12	Amended	IPSAS 42 January 2019
13	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
14	Amended	IPSAS 39 July 2016
15	Amended	IPSAS 47 May 2023
18	Amended	*Collective and Individual Services* January 2020 *Definition of Material* October 2025
19	Amended	IPSAS 42 January 2019
22	Amended	*Improvements to IPSAS* April 2016
27	Amended	IPSAS 45 May 2023
37	Amended	IPSAS 37 January 2015
77	Amended	IPSAS 42 January 2019
79A	New	*Improvements to IPSAS* January 2022
80	Amended	*Improvements to IPSAS* January 2022
87	Amended	IPSAS 14 December 2006

Paragraph Affected	How Affected	Affected By
		Definition of Material October 2025
99	Deleted	IPSAS 42 January 2019
104	Deleted	IPSAS 42 January 2019
107	Amended	IPSAS 47 May 2023
110	Deleted	IPSAS 33 January 2015
110A	New	*Improvements to IPSAS* January 2022
110B	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
111[1]	Deleted	IPSAS 3 December 2006
111A	New	*Improvements to IPSAS* October 2011
111B	New	IPSAS 33 January 2015
111C	New	IPSAS 37 January 2015
111D	New	*Improvements to IPSAS* April 2016
111E	New	*The Applicability of IPSAS* April 2016
111F	New	IPSAS 39 July 2016
111G	New	IPSAS 40 January 2017
111H	Amended	*COVID-19: Deferral of Effective Dates* November 2020
111I	New	IPSAS 42 January 2019
111J	Amended	*COVID-19: Deferral of Effective Dates* November 2020
111K	New	*Improvements to IPSAS* January 2022
111L	New	IPSAS 43 January 2022
111M	New	IPSAS 44 May 2022
111N	New	IPSAS 45 May 2023
111O	New	IPSAS 47 May 2023
111P	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
111Q	New	*Definition of Material* October 2025
112	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025

[1] Paragraph 111 was a transitional provision. Subsequent paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
AG1	New	*Collective and Individual Services* January 2020
AG2	New	*Collective and Individual Services* January 2020
AG3	New	*Collective and Individual Services* January 2020
AG4	New	*Collective and Individual Services* January 2020
AG5	New	*Collective and Individual Services* January 2020
AG6	New	*Collective and Individual Services* January 2020
AG7	New	*Collective and Individual Services* January 2020
AG8	New	*Collective and Individual Services* January 2020
AG9	New	*Collective and Individual Services* January 2020
AG10	New	*Collective and Individual Services* January 2020
AG11	New	*Collective and Individual Services* January 2020
AG12	New	*Collective and Individual Services* January 2020
AG13	New	*Collective and Individual Services* January 2020
AG14	New	*Collective and Individual Services* January 2020
AG15	New	*Collective and Individual Services* January 2020
AG16	New	*Collective and Individual Services* January 2020
AG17	New	*Collective and Individual Services* January 2020
AG18	New	*Collective and Individual Services* January 2020
AG19	New	*Collective and Individual Services* January 2020
AG20	New	*Collective and Individual Services* January 2020
B1	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
B2	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
B3	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
B4	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
B5	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
B6	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

Paragraph Affected	How Affected	Affected By
B7	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
B8	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C1	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C2	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C3	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C4	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C5	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C6	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C7	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C8	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C9	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C10	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C11	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C12	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
C13	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IG13	Deleted	IPSAS 43 January 2022
IG14	Deleted	IPSAS 41 August 2018
IG16	Amended	IPSAS 45 May 2023
IE3	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

Paragraph Affected	How Affected	Affected By
IE4	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE5	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE6	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE7	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE8	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE9	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE10	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE11	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE12	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE13	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE14	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE15	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE16	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE17	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE18	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE19	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE20	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

IPSAS 19, *PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS*

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International Public Sector Accounting Standard 19, *Provisions, Contingent Liabilities and Contingent Assets*, is set out in the objective and paragraphs 1–112. All the paragraphs have equal authority. IPSAS 19 should be read in the context of its objective, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to (a) define provisions, contingent liabilities, and contingent assets, and (b) identify the circumstances in which provisions should be recognized, how they should be measured, and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements, to enable users to understand their nature, timing, and amount.

Scope

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

   (a) **Social benefits within the scope of IPSAS 42;**

   (b) [Deleted]

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

   (d) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;**

   (e) **Those covered by another IPSAS;**

   (f) **Those arising in relation to income taxes or income tax equivalents; and**

   (g) **Those arising from employee benefits, except employee termination benefits that arise as a result of a restructuring, as dealt with in this Standard.**

2. [Deleted]

3. [Deleted]

4. **This Standard does not apply to financial instruments (including guarantees) that are within the scope of IPSAS 41, *Financial Instruments*.**

4A. This Standard does not apply to the contingent consideration of an acquirer in a public sector combination which is within the scope of IPSAS 40, *Public Sector Combinations*.

5. [Deleted]

6. This Standard applies to provisions for restructuring (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

6A. This Standard provides guidance on determining whether, and if so, when, a provision arises from collective and individual services (paragraphs AG2–AG20).

7. [Deleted]

8. [Deleted]

9. [Deleted]

10. [Deleted]

11. [Deleted]

Exclusions from the Scope of the Standard

12. This Standard does not apply to executory contracts unless they are onerous.

13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:

    (a) [Deleted]

    (b) Leases (see IPSAS 43, *Leases*). However, this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in IPSAS 43. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 7 of IPSAS 43 and that have become onerous; and

    (c) Revenue from binding arrangements (see IPSAS 47, *Revenue*). However, as IPSAS 47 contains no specific requirements to address binding arrangements that are, or have become, onerous, this Standard applies to such cases.

14. This Standard does not apply to provisions for income taxes or income tax equivalents (guidance on accounting for income taxes is found in IAS 12, *Income Taxes)*. Nor does it apply to provisions arising from employee benefits (guidance on accounting for employee benefits is found in IPSAS 39, *Employee Benefits*.)

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. IPSAS 47 identifies the circumstances in which revenue arising from binding arrangements that include compliance obligations to transfer promised goods or services to the purchaser or third-party beneficiary is recognized and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of IPSAS 47.

16. This Standard defines provisions as liabilities of uncertain timing or amount. In some countries, the term provision is also used in the context of items such as depreciation, impairment of assets, and doubtful debts; these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

17. Other IPSAS specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalization of the costs recognized when a provision is made.

Definitions

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

    Collective services are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.

    A constructive obligation is an obligation that derives from an entity's actions where:

    (a) **By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and**

    (b) **As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.**

    A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

(a) **A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or**

(b) **A present obligation that arises from past events, but is not recognized because:**

(i) **It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or**

(ii) **The amount of the obligation cannot be measured with sufficient reliability[2].**

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

A legal obligation is an obligation that derives from:

(a) **A contract (through its explicit or implicit terms);**

(b) **Legislation; or**

(c) **Other operation of law.**

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

A provision is a liability of uncertain timing or amount.

A restructuring is a program that is planned and controlled by management, and materially changes either:

(a) **The scope of an entity's activities; or**

(b) **The manner in which those activities are carried out.**

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

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

Provisions and Other Liabilities

19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier; and

[2] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

(b) Accruals are liabilities to pay for goods or services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

Relationship between Provisions and Contingent Liabilities

20. In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard, the term contingent is used for liabilities and assets that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

21. This Standard distinguishes between:

(a) Provisions—which are recognized as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and

(b) Contingent liabilities—which are not recognized as liabilities because they are either:

(i) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or

(ii) Present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

22. **A provision shall be recognized when:**

(a) **An entity has a present obligation (legal or constructive) as a result of a past event;**

(b) **It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**

(c) **A reliable estimate can be made of the amount of the obligation.**

If these conditions are not met, no provision shall be recognized.

Present Obligation

23. **In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.**

24. In most cases it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, an entity determines whether a present obligation exists at the reporting date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence:

(a) Where it is more likely than not that a present obligation exists at the reporting date, the entity recognizes a provision (if the recognition criteria are met); and

(b) Where it is more likely that no present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

Past Event

25. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) Where the settlement of the obligation can be enforced by law; or

(b) In the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

26. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. The only liabilities recognized in an entity's statement of financial position are those that exist at the reporting date.

27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused. IPSAS 45, *Property, Plant, and Equipment*, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles, or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognized.

28. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed – indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management, governing body, or controlling entity does not give rise to a constructive obligation at the reporting date, unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

29. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused by a government agency, there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified, or when the controlling

government or the individual agency publicly accepts responsibility for rectification in a way that creates a constructive obligation.

30. Where details of a proposed new law have yet to be finalized, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. However, differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases, it is not possible to judge whether a proposed new law is virtually certain to be enacted as drafted, and any decision about the existence of an obligation should await the enactment of the proposed law.

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

31. For a liability to qualify for recognition, there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

32. Where there are a number of similar obligations (for example, a government's obligation to compensate individuals who have received contaminated blood from a government-owned hospital), the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized (if the other recognition criteria are met).

Reliable Estimate of the Obligation

33. The use of estimates is an essential part of the preparation of financial statements, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes, and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognizing a provision.

34. In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognized. That liability is disclosed as a contingent liability (see paragraph 100).

Contingent Liabilities

35. **An entity shall not recognize a contingent liability.**

36. A contingent liability is disclosed, as required by paragraph 100, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

37. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint arrangement debt, that part of the obligation that is to be met by other joint arrangement participants is treated as a contingent liability. The entity recognizes a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

38. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be

required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made). For example, a local government entity may have breached an environmental law, but it remains unclear whether any damage was caused to the environment. Where, subsequently it becomes clear that damage was caused and remediation will be required, the entity would recognize a provision because an outflow of economic benefits is now probable.

Contingent Assets

39. **An entity shall not recognize a contingent asset.**

40. Contingent assets usually arise from unplanned or other unexpected events that (a) are not wholly within the control of the entity, and (b) give rise to the possibility of an inflow of economic benefits or service potential to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

41. Contingent assets are not recognized in financial statements, since this may result in the recognition of revenue that may never be realized. However, when the realization of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

42. A contingent asset is disclosed, as required by paragraph 105, where an inflow of economic benefits or service potential is probable.

43. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits or service potential has become probable, an entity discloses the contingent asset (see paragraph 105).

Measurement

Best Estimate

44. **The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.**

45. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

46. The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Example

A government medical laboratory provides diagnostic ultrasound scanners to both government-owned and privately owned medical centers and hospitals on a full-cost recovery basis. The equipment is provided with a warranty under which the medical centers and hospitals are covered for the cost of repairs of any defects that become apparent within the first six months after purchase. If minor defects were

detected in all equipment provided, repair costs of 1 million currency units would result. If major defects were detected in all equipment provided, repair costs of 4 million currency units would result. The laboratory's past experience and future expectations indicate that, for the coming year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects and 5% of the equipment will have major defects. In accordance with paragraph 32, the laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

(75% of nil) + (20% of 1m) + (5% of 4m) = 400,000

47. Uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is "expected value." The provision will therefore be different, depending on whether the probability of a loss of a given amount is, for example, 60% or 90%. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the midpoint of the range is used.

48. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if a government has to rectify a serious fault in a defense vessel that it has constructed for another government, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 100,000 currency units, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

49. The provision is measured before tax or tax equivalents. Guidance on dealing with the tax consequences of a provision, and changes in it, is found in IAS 12.

Risks and Uncertainties

50. **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

51. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

52. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 98(b).

Present Value

53. **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

54. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

When a provision is discounted over a number of years, the present value of the provision will increase each year as the provision comes closer to the expected time of settlement (see Illustrative Example).

55. Paragraph 97(e) of this Standard requires disclosure of the increase, during the period, in the discounted amount arising from the passage of time.

56. **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**

57. In some jurisdictions, income taxes or income tax equivalents are levied on a public sector entity's surplus for the period. Where such income taxes are levied on public sector entities, the discount rate selected should be a pre-tax rate.

Future Events

58. **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**

59. Expected future events may be particularly important in measuring provisions. For example, certain obligations may be index-linked to compensate recipients for the effects of inflation or other specific price changes. If there is sufficient evidence of likely expected rates of inflation, this should be reflected in the amount of the provision. Another example of future events affecting the amount of a provision is where a government believes that the cost of cleaning up the tar, ash, and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount recognized reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology, or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

60. The effect of possible new legislation that may affect the amount of an existing obligation of a government or an individual public sector entity is taken into consideration in measuring that obligation, when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both (a) of what legislation will demand, and (b) of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Expected Disposal of Assets

61. **Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**

62. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognizes gains on expected disposals of assets at the time specified by the IPSAS dealing with the assets concerned.

Reimbursements

63. **Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated**

as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision.

64. **In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.**

65. Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses, or suppliers' warranties). The other party may either reimburse amounts paid by the entity, or pay the amounts directly. For example, a government agency may have legal liability to an individual as a result of misleading advice provided by its employees. However, the agency may be able to recover some of the expenditure from professional indemnity insurance.

66. In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognized for the full amount of the liability, and a separate asset for the expected reimbursement is recognized when it is virtually certain that reimbursement will be received if the entity settles the liability.

67. In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs, and they are not included in the provision.

68. As noted in paragraph 37, an obligation for which an entity is jointly and severally liable is a contingent liability, to the extent that it is expected that the obligation will be settled by the other parties.

Changes in Provisions

69. **Provisions shall be reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.**

70. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

Use of Provisions

71. **A provision shall be used only for expenditures for which the provision was originally recognized.**

72. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognized for another purpose would conceal the impact of two different events.

Application of the Recognition and Measurement Rules

Future Operating Net Deficits

73. **Provisions shall not be recognized for net deficits from future operating activities.**

74. Net deficits from future operating activities do not meet the definition of liabilities in paragraph 18 and the general recognition criteria set out for provisions in paragraph 22.

75. An expectation of net deficits from future operating activities is an indication that certain assets used in these activities may be impaired. An entity tests these assets for impairment. Guidance on accounting for impairment is found in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate.

Onerous Contracts

76. **If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognized and measured as a provision.**

77. Paragraph 76 of this Standard applies only to contracts that are onerous.

78. Many contracts evidencing exchange transactions (for example, some routine purchase orders) can be canceled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard, and a liability exists that is recognized. Executory contracts that are not onerous fall outside the scope of this Standard.

79. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. Therefore, it is the present obligation net of recoveries that is recognized as a provision under paragraph 76. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

79A. The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

(a) The incremental costs of fulfilling that contract—for example, direct labor and materials; and

(b) An allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling that contract among others.

80. Before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract (see IPSAS 21 and IPSAS 26).

Restructuring

81. The following are examples of events that may fall under the definition of restructuring:

(a) Termination or disposal of an activity or service;

(b) The closure of a branch office or termination of activities of a government agency in a specific location or region, or the relocation of activities from one region to another;

(c) Changes in management structure, for example, eliminating a layer of management or executive service; and

(d) Fundamental reorganizations that have a material effect on the nature and focus of the entity's operations.

82. A provision for restructuring costs is recognized only when the general recognition criteria for provisions set out in paragraph 22 are met. Paragraphs 83–96 set out how the general recognition criteria apply to restructurings.

83. **A constructive obligation to restructure arises only when an entity:**

(a) **Has a detailed formal plan for the restructuring identifying at least:**

(i) **The activity/operating unit or part of an activity/operating unit concerned;**

(ii) **The principal locations affected;**

(iii) **The location, function, and approximate number of employees who will be compensated for terminating their services;**

(iv) **The expenditures that will be undertaken; and**

(v) **When the plan will be implemented; and**

(b) **Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.**

84. Within the public sector, restructuring may occur at the whole-of-government, portfolio or ministry, or agency level.

85. Evidence that a government or an individual entity has started to implement a restructuring plan would be provided, for example, by (a) the public announcement of the main features of the plan, (b) the sale or transfer of assets, (c) notification of intention to cancel leases, or (d) the establishment of alternative arrangements for clients of services. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations in other parties, such as users of the service, suppliers, and employees (or their representatives) that the government or the entity will carry out the restructuring.

86. For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible, and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins, or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the government or individual entity is at present committed to restructuring, because the timeframe allows opportunities for the government or entity to change its plans.

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

(a) Started to implement the restructuring plan; or

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

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

88. Although a constructive obligation is not created solely by a management or governing body decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale or transfer of an operation, may have been concluded subject only to governing body or board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 83 are met.

89. In some countries, (a) the ultimate authority for making decisions about a public sector entity is vested in a governing body or board whose membership includes representatives of interests other than those of management (for example, employees), or (b) notification to these representatives may be necessary before the governing body or board decision is taken. Because a decision by such a governing body or board involves communication to these representatives, it may result in a constructive obligation to restructure.

Sale or Transfer of Operations

90. **No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.**

91. Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind, and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

92. Restructuring within the public sector often involves the transfer of operations from one controlled entity to another, and may involve the transfer of operations at no or nominal consideration. Such transfers will often take place under a government directive, and will not involve binding agreements as described in paragraph 90. An obligation exists only when there is a binding transfer agreement. Even where proposed transfers do not lead to the recognition of a provision, the planned transaction may require disclosure under other IPSAS, such as IPSAS 14, and IPSAS 20, *Related Party Disclosures*.

Restructuring Provisions

93. **A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:**

    (a) **Necessarily entailed by the restructuring; and**

    (b) **Not associated with the ongoing activities of the entity.**

94. A restructuring provision does not include such costs as:

    (a) Retraining or relocating continuing staff;

    (b) Marketing; or

    (c) Investment in new systems and distribution networks.

    These expenditures relate to the future conduct of an activity, and are not liabilities for restructuring at the reporting date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring.

95. Identifiable future operating net deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract, as defined in paragraph 18.

96. As required by paragraph 61, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Disclosure

97. **For each class of provision, an entity shall disclose:**

    (a) **The carrying amount at the beginning and end of the period;**

    (b) **Additional provisions made in the period, including increases to existing provisions;**

    (c) **Amounts used (that is, incurred and charged against the provision) during the period;**

    (d) **Unused amounts reversed during the period; and**

    (e) **The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**

    Comparative information is not required.

98. **An entity shall disclose the following for each class of provision:**

(a) **A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;**

(b) **An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 58; and**

(c) **The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.**

99. [Deleted]

100. **Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:**

(a) **An estimate of its financial effect, measured under paragraphs 44–62;**

(b) **An indication of the uncertainties relating to the amount or timing of any outflow; and**

(c) **The possibility of any reimbursement.**

101. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 98(a) and (b) and 100(a) and (b). Thus, it may be appropriate to treat, as a single class of provision, amounts relating to one type of obligation, but it would not be appropriate to treat, as a single class, amounts relating to environmental restoration costs and amounts that are subject to legal proceedings.

102. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 97, 98, and 100 in a way that shows the link between the provision and the contingent liability.

103. An entity may in certain circumstances use external valuation to measure a provision. In such cases, information relating to the valuation can usefully be disclosed.

104. [Deleted]

105. **Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 44–62.**

106. The disclosure requirements in paragraph 105 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets (see paragraphs 39 to 43 for a discussion of contingent assets). It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising. For example, a contingent asset would arise from a contract where a public sector entity allows a private sector company to mine one of its properties in exchange for a royalty based on a set price per ton extracted, and the company has commenced mining. In addition to disclosing the nature of the arrangement, the contingent asset should be quantified, where a reasonable estimate can be made of the quantity of mineral to be extracted and the timing of the expected cash inflows. If there were no proven reserves, or some other circumstances prevailed that indicated that it would be unlikely that any minerals would be extracted, the public sector entity would not disclose information required by paragraph 105 as there is no probable flow of benefits.

107. The disclosure requirements in paragraph 105 encompasses contingent assets from an entity's transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are addressed in IPSAS 47.

108. **Where any of the information required by paragraphs 100 and 105 is not disclosed because it is not practicable to do so, that fact shall be stated.**

109. **In extremely rare cases, disclosure of some or all of the information required by paragraphs 97–107 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

Transitional Provisions

110. [Deleted]

110A. *Improvements to IPSAS, 2021*, issued in January 2022 added paragraph 79A and amended paragraph 80. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of net assets/equity or other component of net assets/equity, as appropriate, at the date of initial application.

110B. *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025, added Appendix B and Appendix C. Changes in accounting policies and changes in accounting estimates shall be accounted for according to the requirements of *IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.*

Effective Date

111. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2004. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2004, it shall disclose that fact.**

111A. **Paragraph 5 was deleted and paragraphs 1 and 4 were amended by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

111B. **Paragraphs 110 and 112 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

111C. **IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 37. An entity shall apply that amendment when it applies IPSAS 37.**

111D. **Paragraph 6 was amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1,**

2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017, it shall disclose that fact.

111E. **Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

111F. **Paragraph 14 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

111G. **Paragraph 4A was added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

111H. **Paragraph 4 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

111I. **Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.**

111J. **Paragraphs 6A and AG1–AG20 were added and paragraph 18 was amended by *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 42, Social Benefits, at the same time.**

111K. **Paragraphs 79A and 110A were added and paragraph 80 was amended by *Improvements to IPSAS*, 2021, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

111L. **Paragraph 13 was amended by IPSAS 43 issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

111M. **Paragraph 6 was amended by IPSAS 44 issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

111N. **Paragraph 27 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

111O. **Paragraphs 13, 15, and 107 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026.**

Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.

111P. **Appendix B (paragraphs B1-B8) and Appendix C (paragraphs C1-C13) were added by *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025. An entity shall apply these amendments for annual periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, 2026, it shall disclose that fact.**

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

112. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Tables

Provisions, Contingent Liabilities, Contingent Assets, and Reimbursements

These Tables accompany, but are not part of, IPSAS 19.

Provisions and Contingent Liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits or service potential in settlement of (a) a present obligation, or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
There is a present obligation that probably requires an outflow of resources.	**There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognized (paragraph 22).	No provision is recognized (paragraph 35).	No provision is recognized (paragraph 35).
Disclosures are required for the provision (paragraphs 97 and 98).	Disclosures are required for the contingent liability (paragraph 100).	No disclosure is required (paragraph 100).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognized because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent Assets

Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
The inflow of economic benefits or service potential is virtually certain.	**The inflow of economic benefits or service potential is probable, but not virtually certain.**	**The inflow of economic benefits or service potential is not probable.**
The asset is not contingent (paragraph 41).	No asset is recognized (paragraph 39).	No asset is recognized (paragraph 39).
	Disclosures are required (paragraph 105).	No disclosure is required (paragraph 105).

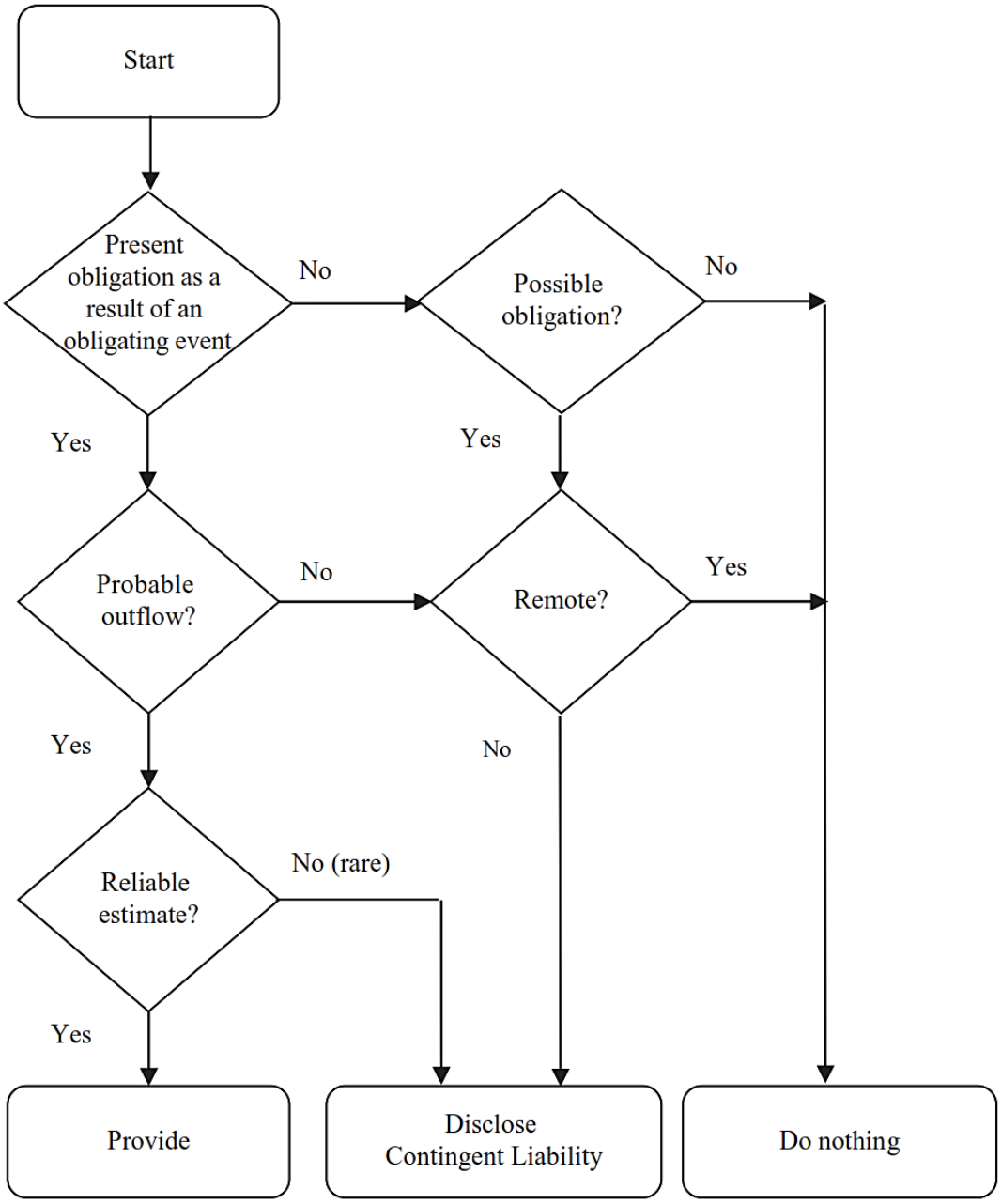
Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party.	**The obligation for the amount expected to be reimbursed remains with the entity, and it is virtually certain that reimbursement will be received if the entity settles the provision.**	**The obligation for the amount expected to be reimbursed remains with the entity, and the reimbursement is not virtually certain if the entity settles the provision.**
The entity has no liability for the amount to be reimbursed (paragraph 67).	The reimbursement is recognized as a separate asset in the statement of financial position, and may be offset against the expense in the statement of financial performance. The amount recognized for the expected reimbursement does not exceed the liability (paragraphs 63 and 64).	The expected reimbursement is not recognized as an asset (paragraph 63).
No disclosure is required.	The reimbursement is disclosed, together with the amount recognized for the reimbursement (paragraph 98(c)).	The expected reimbursement is disclosed (paragraph 98(c)).

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 19.

Note: In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date (paragraph 23 of this Standard).



Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 19.

Introduction

AG1. This Appendix provides guidance on determining whether a provision arises for *Collective and Individual Services*. These transactions do not meet the definition of social benefits in IPSAS 42, *Social Benefits* (and are therefore outside the scope of that Standard). This Appendix addresses the question of whether a provision needs to be recognized for these transactions before the services are delivered.

Collective and Individual Services

Scope of Collective and Individual Services

AG2. This Standard defines collective services as services provided by a public sector entity simultaneously to all members of the community and are intended to address the needs of society as a whole. The provision of a collective service to one individual does not reduce the amount available to other individuals; there is no rivalry in the consumption of collective services. Consumption of collective services is usually passive and does not require the explicit agreement or active participation of those benefiting from the service.

AG3. This Standard defines individual services as goods and services provided to individuals and households by a public sector entity and are intended to address the needs of society as a whole. The provision of an individual service to one individual may reduce the amount available to other individuals, or may delay the receipt of those services by some individuals. Consumption of individual services requires the explicit agreement or active participation of those benefiting from the service. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.

AG4. Social benefits and *Collective and Individual Services* all address the needs of society as a whole. Addressing the needs of society as a whole does not require that each collective or individual service covers all members of society; such services can cover different segments of society. A collective or individual service that covers a segment of society as part of a wider system of similar services meets the requirement that it addresses the needs of society as a whole.

AG5. Collective services and individual services involve the provision of services by, or on behalf of, a public sector entity. Consequently, cash transfers are not collective or individual services.

AG6. Public sector entities provide *Collective and Individual Services* through their employees or by purchasing goods and services from third party providers.

AG7. Examples of collective services include defense and street lighting. Examples of individual services include healthcare and education provided at no or nominal cost. Individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement; however, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.

AG8. Collective services are provided to a community rather than to individuals, which distinguishes them from individual services and social benefits. Individual services involve the delivery of services to individuals and/or households, which distinguishes them from social benefits that involve cash transfers (including cash equivalents such as pre-paid debit cards).

AG9. In some jurisdictions, individuals may pay for services, for example healthcare, and subsequently be reimbursed by a public sector entity. The substance of these reimbursements is that the public sector entity is paying for the services, and the transaction is an individual service rather than a social benefit.

AG10. The following table compares the key characteristics of social benefits (as defined in IPSAS 42), individual services and collective services.

	Social Benefits	**Individual Services**	**Collective Services**
Involves a cash transfer to eligible beneficiaries?	√	×	×
Provided to individuals and/or households rather than to a community?	√	√	×
Intended to address the needs of society as a whole?	√	√	√

Provision Recognized for Collective Services before the Services are Delivered

AG11. An intention to deliver collective services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to a present obligation.

AG12. Collective services are ongoing activities of the public sector entity that delivers the services. Paragraph 26 of this Standard states that "no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future." Consequently, in accordance with the principles of this Standard, no provision is recognized for the intention to deliver such services.

AG13. In delivering collective services, a public sector entity acquires resources and incurs expenses, usually through contracts and other binding arrangements. Examples include the electricity used in delivering street lighting, the salaries paid to acquire the services of defense staff, the acquisition of non-current assets used in delivering those services, and the purchase of collective services from a third-party provider. These contracts or other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver collective services to the public.

No Provision Recognized for Individual Services before the Services are Delivered

AG14. An intention to deliver individual services, budget approval to deliver those services, or the existence of legislation in respect of those services are not, in themselves, sufficient to give rise to a present obligation. There are no past events that give rise to a liability for collective or individual services. As noted in paragraph AG7, individual services may or may not have eligibility criteria, such as reaching a certain age or a residential requirement. However, the existence (or otherwise) of eligibility criteria does not change the determination of whether transactions satisfy the definition of individual services.

AG15. The delivery of individual services is an ongoing activity of the public sector entity that provides the services. The delivery of individual services results in the public sector entity acquiring resources and incurring expenses, usually through contracts or other binding arrangements.

AG16. The public sector entity uses these resources to deliver services to specific individuals and/or households. Where individuals and/or households access individual services, the entity may have a number of future obligations relating to the delivery of these individual services. Such obligations are an aspect of the ongoing activities of the public sector entity. Similar to collective services, and in accordance with the principles of this

Standard, no provision is recognized for the intention to deliver such services prior to individuals and/or households accessing the services.

AG17. Examples of the resources acquired and expenses incurred in delivering individual services include the pharmaceuticals or medical supplies used in delivering healthcare, the salaries paid to acquire the services of teachers, the acquisition of non-current assets used in delivering those services (for example, a hospital or an ambulance), and the purchase of individual services from a third-party provider. These contracts and other binding arrangements are accounted for in accordance with other IPSAS. In some circumstances, these arrangements may give rise to provisions, for example where a contract or other binding arrangement becomes onerous. However, any such provisions relate to the binding arrangement and not to the intention to deliver individual services to the public.

Presentation and Disclosure of Collective and Individual Services

AG18. An entity shall present and disclose information about collective services and individual services in accordance with other IPSAS, including IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements* and IPSAS 18, *Segment Reporting*.

AG19. IPSAS 1 requires an entity to “present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.”

AG20. Where an entity presents information based on the nature of expenses, collective services and individual services will be included in items such as employee benefit costs. Where an entity presents information based on the function of the expenses within the entity, collective services and individual services may be presented as individual line items or amalgamated with similar items depending upon their materiality.

Appendix B

Changes in Existing Decommissioning, Restoration and Similar Liabilities

This Appendix is an integral part of IPSAS 19.

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Changes in the liability alter the revaluation surplus or deficit previously recognized on that class of assets, so that:

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

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

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

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

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

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

Appendix C

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

This Appendix is an integral part of IPSAS 19.

Introduction

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

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

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

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

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

C3. Such funds generally have the following features:

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

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

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

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

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

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

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

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

C6. The issues addressed in this Appendix are:

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

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

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

Accounting for an Interest in a Fund

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

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

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

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

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

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

Accounting for Obligations to Make Additional Contributions

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

Disclosure

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

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

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

Basis for Conclusions

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

Revision of IPSAS 19 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC1. When IPSAS 19 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

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

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

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

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

BC1A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 19 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 19 as a result of IPSAS 42, *Social Benefits*

BC3. When issued, this Standard excluded provisions and contingent liabilities "arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits" from the scope of the Standard. This reflected the view at that time that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability required further consideration.

BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.

BC5. Following the publication of IPSAS 42, all social benefits (as defined in that Standard) will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of IPSAS 42.

Revision of IPSAS 19 as a result of *Collective and Individual Services* (Amendments to IPSAS 19) issued in January 2020.

Collective and Individual Services

BC6. When IPSAS 19 was first issued, "provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits" were excluded from the scope of the Standard. IPSAS 19 described social benefits in wide terms as "goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

(a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and

(b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income."

BC7. IPSAS 42, *Social Benefits*, was issued in January 2019. IPSAS 42 amended IPSAS 19, which now excludes from its scope social benefits within the scope of IPSAS 42 (i.e., cash transfers (including cash equivalents) provided to mitigate the effect of social risks, rather than the wider range of transactions previously referred to as social benefits). A consequence of this amendment was to bring within the scope of IPSAS 19 any provisions and contingent liabilities arising from transactions that were previously excluded from the scope of IPSAS 19, but which are not within the scope of IPSAS 42. The IPSASB therefore agreed to provide guidance on accounting for these transactions. As was previously noted in IPSAS 19, a key issue for stakeholders was whether a provision arose in respect of those transactions.

BC8. Such transactions were referred to in the IPSASB's Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* (issued in August 2017), as "collective services" and "universally accessible services." (As explained in paragraph BC10, the IPSASB later decided to replace the term "universally accessible services" with the term "individual services.") In that CP, the IPSASB expressed a preliminary view that "non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient." As a result, a performance obligation approach

to recognizing a non-exchange expense for these transactions would not be appropriate. Respondents to the CP generally supported that preliminary view.

BC9. In the CP, the IPSASB noted that "a public sector entity may have a number of future obligations relating to the provision of universally accessible services and collective services. Such obligations are an aspect of the ongoing activities of governments and other public sector entities; however, only present obligations give rise to liabilities. The expected future sacrifice of resources does not of itself mean that there is a present obligation. Therefore, the IPSASB is of the view that universally accessible services and collective services do not give rise to obligating events and therefore liabilities or expenses do not arise prior to the delivery of those services to beneficiaries."

BC10. Respondents to the CP also generally supported this view, and the IPSASB agreed to provide Application Guidance on accounting for these transactions in line with the approach set out in the CP. The IPSASB also noted that some respondents considered that the term "universally accessible services" was confusing. The IPSASB agreed to avoid this term, and instead agreed to adopt the term "individual services", which is consistent with the term used in Government Finance Statistics (GFS) and with the term used in the IPSASB's earlier work on social benefits.

BC11. The IPSASB agreed that, because liabilities or expenses for the delivery of *Collective and Individual Services* do not arise prior to the delivery of those services to beneficiaries, it is appropriate to account for the delivery of these services in accordance with other IPSAS. For example, IPSAS 39, *Employee Benefits*, covers the expenses incurred in employing staff to deliver these services, IPSAS 12, *Inventories*, covers the expenses incurred in delivering goods to individuals and households, and IPSAS 41, *Financial Instruments*, covers the financial liability that may be incurred in acquiring goods or services.

BC12. In agreeing that liabilities or expenses for the delivery of *Collective and Individual Services* do not arise prior to the delivery of those services to beneficiaries, the IPSASB noted that although the nature of *Collective and Individual Services* are different, the rationale for why a provision does not arise earlier for both these expense categories was similar. The IPSASB agreed that the guidance should reflect this.

BC13. The IPSASB noted that collective services are ongoing activities of government. Paragraph 26 of IPSAS 19 states that "no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future". Consequently, the IPSASB agreed that recognizing a provision for collective services would be contrary to the requirements of paragraph 26 of IPSAS 19.

BC14. The IPSASB noted that individual services are ongoing activities of government, in the same way as collective services, and that recognizing a provision for such services would also be contrary to the requirements of paragraph 26 of IPSAS 19.

BC15. The IPSASB considered whether specific disclosures for *Collective and Individual Services* were required, and concluded that the existing requirements in IPSAS 1, *Presentation of Financial Statements*, IPSAS 2, *Cash Flow Statements*, and IPSAS 18, *Segment Reporting*, and the various IPSAS dealing with the specific transactions would provide sufficient information to meet users' needs. Consequently, the IPSASB agreed not to require any specific disclosures for *Collective and Individual Services*.

Responses to ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19)

BC16. The IPSASB issued its proposals in ED 67, *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) in January 2019.

BC17. Respondents generally supported the proposals in respect of *Collective and Individual Services*, but raised a number of issues for the IPSASB to consider in finalizing the amendments.

BC18. A number of these issues related to the definitions of collective services and individual services. The IPSASB decided not to make any changes to the definitions, for the following reasons:

(a) Some respondents questioned whether two definitions were required when the accounting treatment was the same. The IPSASB considered that the fact that the nature of collective services is different from the nature of individual services meant that retaining separate definitions was appropriate. The IPSASB also noted that this would be consistent with the approach in GFS.

(b) Respondents commented that *Collective and Individual Services* are non-cash transactions and that this should be reflected in the definitions. The IPSASB decided to make specific reference to the non-cash nature of *Collective and Individual Services* in the Application Guidance.

(c) Some respondents questioned why the definition of collective services did not refer to goods, unlike the definition of individual services. The IPSASB noted that the assets (such as lamp posts) that are used to deliver collective services are referred to in GFS as collective goods. However, such assets remain under the entity's control and are not transferred to service recipients. Consequently, the IPSASB agreed not to include goods in the definition of collective services.

(d) A respondent proposed amending the definitions of collective services and individual services to refer to services that are continually provided. The IPSASB considered that this was already implicitly addressed in the description of collective services and individual services as ongoing activities of public sector entities, and agreed that no change to the definitions was needed. The IPSASB noted that a consequence of the fact that *Collective and Individual Services* are continually provided is that no provision is recognized because the past event that gives rise to a present obligation occurs simultaneously with the provision of services that satisfies that obligation.

BC19. Further issues related to the accounting for *Collective and Individual Services*. There was strong support for the proposals that a provision should not be recognized for these transactions, but some respondents considered that the rationale needed to be strengthened. In considering these comments, the IPSASB came to the following conclusions:

(a) Some respondents commented that as well as being ongoing activities of a public sector entity, *Collective and Individual Services* were not independent of an entity's future actions, as described in paragraph 27 of IPSAS 19. These respondents considered that this should be discussed in the final pronouncement. The IPSASB accepted that this would be true in some cases, but noted that in many jurisdictions, there is a legal requirement for a government or other public sector entity to provide collective services. While there may be elements of discretion in how the services are delivered, the obligation to provide services remains. Consequently, the IPSASB agreed not to include this issue.

(b) Respondents noted that in IPSAS 42, the IPSASB had acknowledged that some stakeholders considered that an entity having to recognize large liabilities for services to be delivered in the future without the recognition of future taxes to pay for those services is unlikely to meet the objectives of financial reporting and satisfy the qualitative characteristics. Respondents considered that this rationale applied equally to *Collective and Individual Services*. The IPSASB concurred.

(c) Some respondents commented that while no provision arises from an entity's intentions to deliver *Collective and Individual Services* to the public, a provision might arise from the binding arrangements through which those services are provided. The IPSASB concurred and agreed to include additional guidance to this effect.

(d) Some respondents raised concerns regarding the proposed treatment of vouchers in ED 67, and questioned whether they should be treated in same way as loyalty programs such as airlines' frequent flier programs. The IPSASB accepted these concerns, and noted that the appropriate treatment (in terms of the past event and therefore the recognition point) will vary depending on the conditions

attached to the vouchers. The IPSASB agreed it was inappropriate to develop guidance for all these circumstances.

Emergency Relief

BC20. The IPSASB included proposals for accounting for emergency relief in ED 67. While many respondents were supportive of providing such guidance, several issues were raised. Respondents considered that a definition of emergency relief would be required, notwithstanding the fact that the diverse practices across jurisdictions makes this difficult. Respondents also questioned whether the proposed distinction between emergency relief that is an ongoing activity of government and emergency relief provided in response to specific emergencies was always appropriate, and whether it could be applied consistently. Respondents further questioned how other assistance that did not fall within the scope of emergency relief should be accounted for.

BC21. In light of these concerns, the IPSASB decided not to proceed with the guidance on emergency relief proposed in ED 67. The IPSASB decided to consider the topic in developing its Mid-Term Work Program Consultation 2021.

Revision of IPSAS 19 as a result of *COVID-19: Deferral of Effective Dates*

BC22. The IPSASB published *Collective and Individual Services* (Amendments to IPSAS 19) in January 2020. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC23. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC24. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC25. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 19 as a result of *Improvements to IPSAS, 2021*

BC26. The IPSASB reviewed the revisions to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, included in *Onerous Contracts—Cost of Fulfilling a Contract* (Amendments to IAS 37) issued by the IASB in May 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments.

Revisions of IPSAS 19 as a result of *Amendments to IPSAS Standards: Specific IFRIC Interpretations*

BC27. In September 2023, the IPSASB initiated a narrow scope project to consider seven IFRIC and SIC Interpretations that were issued by the IFRS Interpretations Committee, but had not yet been considered by the IPSASB, to determine their applicability to the public sector. In its assessment, the IPSASB considered whether public sector entities may face similar application issues, and whether incorporating guidance based on the Interpretations into IPSAS would help clarify the application of existing accounting principles.

BC28. Based on its review of the Interpretations and the IFRS Interpretations Committee's considerations in reaching its consensus as set out in its Basis for Conclusions, the IPSASB generally concurred that there was no public sector specific reason for not incorporating the guidance based on the following Interpretations into IPSAS 19:

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

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

BC29. In April 2024, the IPSASB published Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations*, which proposed to incorporate guidance into IPSAS to clarify the application of existing accounting principles, based on IFRIC 1 and IFRIC 5. The IPSASB received strong constituent support for these proposals. Therefore, it decided to amend IPSAS 19 to incorporate the proposed guidance.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 19.

Recognition

IG1. All the entities in the examples have a reporting date of December 31. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples, the circumstances described may have resulted in impairment of the assets—this aspect is not dealt with in the examples.

IG2. The cross-references provided in the examples indicate paragraphs of this Standard that are particularly relevant. This guidance should be read in the context of the full text of this Standard.

IG3. References to "best estimate" are to the present value amount, where the effect of the time value of money is material.

Warranties

IG4. Government Department A manufactures search and rescue equipment for use within the Government and for sale to the public. At the time of sale, the Department gives warranties to purchasers in relation to certain products. Under the terms of the sale, the Department undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (that is, more likely than not) that there will be some claims under the warranties.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable for the warranties as a whole (see paragraph 32).

Conclusion

A provision is recognized for the best estimate of the costs of making good under the warranty products sold on or before the reporting date (see paragraphs 22 and 32).

Contaminated Land—Legislation Virtually Certain to be Enacted

IG5. A provincial government owns a warehouse on land near a port. The provincial government has retained ownership of the land because it may require the land for future expansion of its port operations. For the past ten years, a group of farmers have leased the property as a storage facility for agricultural chemicals. The national government announces its intention to enact environmental legislation requiring property owners to accept liability for environmental pollution, including the cost of cleaning-up contaminated land. As a result, the provincial government introduces a hazardous chemical policy and begins applying the policy to its activities and properties. At this stage it becomes apparent that the agricultural chemicals have contaminated the land surrounding the warehouse. The provincial government has no recourse against the farmers or its insurance company for the clean-up costs. At December 31, 2001 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year end.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land because of the virtual certainty of legislation requiring the clean-up.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Contamination and Constructive Obligation

IG6. A government has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The government has a record of honoring this published policy. There is no environmental legislation in place in the jurisdiction. During the course of a naval exercise, a vessel is damaged and leaks a substantial amount of oil. The government agrees to pay for the costs of the immediate clean-up and the ongoing costs of monitoring and assisting marine animals and birds.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the environment, which gives rise to a constructive obligation because the policy and previous conduct of the government has created a valid expectation that the government will clean up the contamination.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Gravel Quarry

IG7. A government operates a gravel quarry on land that it leases on a commercial basis from a private sector company. The gravel is used for the construction and maintenance of roads. The agreement with the landowners requires the government to restore the quarry site by removing all buildings, reshaping the land, and replacing all topsoil. 60% of the eventual restoration costs relate to the removal of the quarry buildings and restoration of the site, and 40% arise through the extraction of gravel. At the reporting date, the quarry buildings have been constructed, and excavation of the site has begun but no gravel has been extracted.

Analysis

Present obligation as a result of a past obligating event – The construction of buildings and the excavation of the quarry creates a legal obligation under the terms of the agreement to remove the buildings and restore the site, and is thus an obligating event. At the reporting date, however, there is no obligation to rectify the damage that will be caused by extraction of the gravel.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of 60% of the eventual costs that relate to the removal of the buildings and restoration of the site (see paragraph 22). These costs are included as part of the cost of the quarry. The 40% of costs that arise through the extraction of gravel are recognized as a liability progressively when the gravel is extracted.

Refunds Policy

IG8. A government stores agency operates as a centralized purchasing agency and allows the public to purchase surplus supplies. It has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the sale of the supplies, which gives rise to a constructive obligation, because the conduct of the agency has created a valid expectation on the part of its customers that the agency will refund purchases.

An outflow of resources embodying economic benefits or service potential in settlement – Probable that a proportion of goods are returned for refund (see paragraph 32).

Conclusion

A provision is recognized for the best estimate of the costs of refunds (see paragraphs 18 (the definition of a constructive obligation), 22, 25, and 32).

Closure of a Division—No Implementation before Reporting Date

IG9. On 12 December 2004, a government decides to close down a division of a government agency. The decision was not communicated to any of those affected before the reporting date (December 31, 2004), and no other steps were taken to implement the decision.

Analysis

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 83).

Outsourcing of a Division—Implementation Before the Reporting Date

IG10. On December 12, 2004, a government decided to outsource a division of a government department. On December 20, 2004, a detailed plan for outsourcing the division was agreed by the government, and redundancy notices were sent to the staff of the division.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be outsourced.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized at December 31, 2004 for the best estimate of the costs of outsourcing the division (see paragraphs 22 and 83).

Legal Requirement to Fit Air Filters

IG11. Under new legislation, a local government entity is required to fit new air filters to its public buildings by 30 June 2005. The entity has not fitted the air filters.

Analysis

(a) At the reporting date of December 31, 2004

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting air filters or for fines under the legislation.

Conclusion

No provision is recognized for the cost of fitting the filters (see paragraphs 22 and 25–27).

Analysis

(b) At the reporting date of December 31, 2005

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting air filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliance of the public buildings).

An outflow of resources embodying economic benefits or service potential in settlement – Assessment of probability of incurring fines and penalties for non-compliance depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion

No provision is recognized for the costs of fitting air filters. However, a provision is recognized for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 22 and 25–27).

Staff Retraining as a Result of Changes in the Income Tax System

IG12. The government introduces a number of changes to the income tax system. As a result of these changes, the taxation department (reporting entity) will need to retrain a large proportion of its administrative and compliance staff in order to ensure continued compliance with financial services regulation. At the reporting date, no retraining of staff has taken place.

Analysis

Present obligation as a result of a past obligating event – There is no obligation because no obligating event (retraining) has taken place.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

An Onerous Contract

IG13. [Deleted]

A Single Guarantee

IG14. [Deleted]

A Court Case

IG15. After a luncheon in 2004, ten people died, possibly as a result of food poisoning from products sold by a restaurant at a public museum (the reporting entity). Legal proceedings are started seeking damages from the entity, but it disputes liability. Up to the date of authorization of the financial statements for the year to December 31, 2004 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to December 31, 2005, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Analysis

(a) At December 31, 2004

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion

No provision is recognized by the museum (see paragraphs 23 and 24). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraphs 100 and 109).

Analysis

(b) At December 31, 2005

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognized for the best estimate of the amount to settle the obligation (paragraphs 22–24 and 109).

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. IPSAS 45, *Property, Plant, and Equipment*, gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Refurbishment Costs—No Legislative Requirement

IG17. A furnace for heating a building that is leased out by a government department to a number of public sector tenants has a lining that needs to be replaced every five years for technical reasons. At the reporting date, the lining has been in use for three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

The cost of replacing the lining is not recognized because, at the reporting date, no obligation to replace the lining exists independently of the entity's future actions – even the intention to incur the expenditure depends on the entity deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognized, the depreciation of the lining takes account of its consumption, that is, it is depreciated over five years. The re-lining costs then incurred are capitalized, with the consumption of each new lining shown by depreciation over the subsequent five years.

Refurbishment Costs—Legislative Requirement

IG18. A government cartography service is required by law to overhaul its aircraft used for aerial mapping once every three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognized (see paragraphs 22 and 25–27).

The costs of overhauling aircraft are not recognized as a provision for the same reasons as the cost of replacing the lining is not recognized as a provision in example of paragraph IG17. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions – the entity could avoid the future expenditure by its future actions, for example by selling the aircraft.

Disclosures

Two examples of the disclosures required by paragraph 98 are provided below.

Warranties

IG19. A government department with responsibility for the prevention of workplace accidents gives warranties at the time of sale to purchasers of its safety products. Under the terms of the warranty, the department undertakes to repair or replace items that fail to perform satisfactorily for two years from the date of sale. At the reporting date, a provision of 60,000 currency units has been recognized. The provision has not been discounted, as the effect of discounting is not material. The following information is disclosed:

A provision of 60,000 currency units has been recognized for expected warranty claims on products sold during the last three financial years. It is expected that the majority of this expenditure will be incurred in the next financial year, and all will be incurred within two years of the reporting date.

Decommissioning Costs

IG20. In 2005, a state-owned research facility, which uses a nuclear reactor to develop radio isotopes that are used for medical purposes, recognizes a provision for decommissioning costs of 300 million currency units. The provision is estimated using the assumption that decommissioning will take place in 60–70 years' time. However, there is a possibility that it will not take place until 100–110 years' time, in which case the present value of the costs will be significantly reduced. The following information is disclosed:

A provision of 300 million currency units has been recognized for decommissioning costs. These costs are expected to be incurred between 2065 and 2075; however, there is a possibility that decommissioning will not take place until 2105-2115. If the costs were measured based upon the expectation that they would not be incurred until 2105–2115 the provision would be reduced to 136 million. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2%.

Disclosure Exemption

An example is given below of the disclosures required by paragraph 109 where some of the information required is not given because it can be expected to prejudice seriously the position of the entity.

IG21. A government research agency is involved in a dispute with a company, which is alleging that the research agency has infringed copyright in its use of genetic material, and is seeking damages of 100 million currency units. The research agency recognizes a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 97 and 98 of the Standard. The following information is disclosed:

Litigation is in process against the agency relating to a dispute with a company that alleges that the agency has infringed patents, and is seeking damages of 100 million currency units. The information usually required by IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, is not disclosed, on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The board is of the opinion that the claim can be successfully defended by the agency.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 19.

Measurement

Example 1: Present Value of a Provision

The following example illustrates the journal entries made on initial recognition of the present value of a provision, and the subsequent recognition of increases in the present value of that provision. The increase in the provision is recognized as an interest expense (paragraph 70).

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

IE2. Journal entries to record the provision and changes in the value of the provision each year are as follows:

End of current reporting period			
DR	Expense	1134.85	
CR	Provision		1134.85
End of Year 1			
DR	Interest Expense	136.18	
CR	Provision		136.18
End of Year 2			
DR	Interest Expense	152.52	
CR	Provision		152.52
End of Year 3			
DR	Interest Expense	170.83	
CR	Provision		170.83
End of Year 4			
DR	Interest Expense	191.33	
CR	Provision		191.33
End of Year 5			
DR	Interest Expense	214.29	
CR	Provision		214.29

Calculations:		**Increase**
Current time:	Present value = 2000/(1.12)5 = 1134.85	
End of Year 1:	Present value = 2000/(1.12)4 = 1271.04	136.18
End of Year 2:	Present value = 2000/(1.12)3 = 1423.56	152.52
End of Year 3:	Present value = 2000/(1.12)2 = 1594.39	170.83
End of Year 4:	Present value = 2000/(1.12)1 = 1785.71	191.33
End of Year 5:	Present value = 2000/(1.12)0 = 2000.00	214.29

Changes in Existing Decommissioning, Restoration and Similar Liabilities

IE3. Examples 2-4 illustrate how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities, as presented in Appendix B of IPSAS 19, and how to apply the transition requirements in paragraph 110B of IPSAS 19, using the following common facts:

An entity has a nuclear power plant held primarily for its financial capacity and a related decommissioning liability. The nuclear power plant started operating on January 1, 20X0. The plant has a useful life of 40 years. Its initial cost was CU120,000[3]; this included an amount for decommissioning costs of CU10,000, which represented CU70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on December 31.

Example 2: Historical Cost Model

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

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

		CU	**CU**
Dr	Decommissioning liability	8,000	
Cr	Asset (historical cost model)		8,000

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

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

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

Example 3: Current Value Model

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

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

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

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

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

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

Notes:

1. Valuation obtained of CU115,000 plus decommissioning costs of CU11,600, allowed for in the valuation but recognized as a separate liability = CU126,600.
2. Three years' depreciation on original cost CU120,000 × 3/40 = CU9,000 plus cumulative discount on CU10,000 at 5 per cent compound = CU1,600; total CU10,600.
3. Revalued amount CU126,600 less previous net book value of CU111,000 (cost CU120,000 less accumulated depreciation CU9,000).

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

IE12. The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognized had the asset been carried under the historical cost model. If it had done, the excess would have been taken to surplus or deficit in accordance with paragraph B6(b) of Appendix B of IPSAS 19. The entity makes the following journal entry to reflect the change:

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

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

		CU	CU
Dr	Accumulated depreciation (1)	3,420	
	Cr Asset (current value model)		3,420
Dr	Revaluation surplus (2)	8,980	
	Cr Asset (current value model) (3)		8,980

Notes:

1. Eliminating accumulated depreciation of CU3,420 in accordance with the entity's accounting policy.
2. The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.
3. Previous valuation (before allowance for decommissioning costs) CU126,600, less cumulative depreciation of CU3,420, less new valuation (before allowance for decommissioning costs) CU114,200.

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

	CU
Asset (current value model)	114,200
Accumulated depreciation	nil
Decommissioning liability	(7,200)
Net assets	107,000
Accumulated surplus (1)	(14,620)

Revaluation surplus (2)	11,620

Notes:

1. CU10,600 at December 31, 20X2 plus 20X3's depreciation expense of CU3,420 and discount expense of CU600 = CU14,620.
2. CU15,600 at December 31, 20X2, plus CU5,000 arising on the decrease in the liability, less CU8,980 deficit on revaluation = CU11,620.

Example 4: Transition

IE15. The following example illustrates retrospective application of Appendix B of IPSAS 19 for preparers that already apply IPSAS, in accordance with paragraph 110B of IPSAS 19. Retrospective application is required by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, where practicable. The example assumes that the entity:

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

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

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

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

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

		CU	**CU**
Dr	Asset (historical cost model)	1,500	
	Cr Accumulated depreciation		154
	Cr Opening accumulated surplus		1,346

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

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

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

		CU	CU
Dr	Asset (historical cost model)	1,500	
Cr	Accumulated depreciation		115
Cr	Opening accumulated surplus		1,385

COMPARISON WITH IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

- IPSAS 19 includes commentary additional to that in IAS 37 to clarify the applicability of the standards to accounting by public sector entities. IPSAS 19 clarifies that it does not apply to social benefits within the scope of IPSAS 42, *Social Benefits*.
- Black letter in IAS 37 has been modified, and commentary additional to that in IAS 37 has been included in IPSAS 19 to clarify that, in the case of onerous contracts, it is the present obligation net of recoveries that is recognized as a provision.
- The scope paragraph in IPSAS 19 makes it clear that while provisions, contingent liabilities, and contingent assets arising from employee benefits are excluded from the scope of the Standard, the Standard, however, applies to provisions, contingent liabilities, and contingent assets arising from termination benefits that result from a restructuring dealt with in the Standard.
- IPSAS 19 uses different terminology, in certain instances, from IAS 37. The most significant examples are the use of the terms “revenue” and “statement of financial performance” in IPSAS 19. The equivalent terms in IAS 37 are “income” and “income statement.”
- IPSAS 19 contains the definitions of technical terms used in IAS 37, and an additional definition for “executory contracts.”
- IPSAS 19 provides additional guidance on *Collective and Individual Services*. It explains that public sector entities do not recognize a provision for “*Collective and Individual Services*.”
- IPSAS 19 includes authoritative text based on IFRIC Interpretations, whereas the IASB issues IFRICs as separate documents: Specifically, IPSAS 19 includes Appendix B, based on guidance in IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and Appendix C, based on guidance in IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.
- The Implementation Guidance has been amended to be more reflective of the public sector.
- IPSAS 19 contains an Illustrated Example that illustrates the journal entries for recognition of the change in the value of a provision over time, due to the impact of the discount factor.

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IPSAS 20, *RELATED PARTY DISCLOSURES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 24 (Reformatted 1994), *Related Party Disclosures*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 24 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 20, *RELATED PARTY DISCLOSURES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 20, *Related Party Disclosures* was issued in October 2002.

Since then, IPSAS 20 has been amended by the following IPSAS Accounting *Standards*:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)

Table of Amended Paragraphs in IPSAS 20

Paragraph Affected	How Affected	Affected By
2	Deleted	*The Applicability of IPSAS* April 2016
3	Deleted	*The Applicability of IPSAS* April 2016
4	Amended	IPSAS 37 January 2015 *Definition of Material* October 2025
15	Amended	IPSAS 37 January 2015
22	Amended	*Definition of Material* October 2025
24	Amended	*Improvements to IPSAS* November 2010 IPSAS 35 January 2015
27	Amended	*Improvements to IPSAS* April 2016
32	Amended	*Improvements to IPSAS* April 2016
33	Amended	IPSAS 35 January 2015
38	Amended	IPSAS 39 July 2016
42A	New	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
42B	New	IPSAS 37 January 2015 IPSAS 35 January 2015
42C	New	*Improvements to IPSAS* April 2016
42D	New	*The Applicability of IPSAS* April 2016
42E	New	IPSAS 39 July 2016
42F	Amended	*Definition of Material* October 2025
43	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025

IPSAS 20, *RELATED PARTY DISCLOSURES*

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International Public Sector Accounting Standard 20, *Related Party Disclosures*, is set out in the objective and paragraphs 1–43. All the paragraphs have equal authority. IPSAS 20 should be read in the context of its objective, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are (a) identifying which parties control or significantly influence the reporting entity, and (b) determining what information should be disclosed about transactions with those parties.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing information about related party relationships and certain transactions with related parties.**

2. [Deleted]

3. [Deleted]

Definitions

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

   Close members of the family of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.

   Key management personnel are:

   (a) **All directors or members of the governing body of the entity; and**

   (b) **Other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include:**

      (i) **Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member;**

      (ii) **Any key advisors of that member; and**

      (iii) **Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.**

   Oversight means the supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.

   Related party means parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

   (a) **Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;**

   (b) **Associates (see IPSAS 36, *Investments in Associates and Joint Ventures*);**

(c) **Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;**

(d) **Key management personnel, and close members of the family of key management personnel; and**

(e) **Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.**

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

Remuneration of key management personnel is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 36.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

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

Close Member of the Family of an Individual

5. Judgment will be necessary in determining whether an individual should be identified as a close member of the family of an individual for purposes of application of this Standard. In the absence of information to the contrary, such as that a spouse or other relative is estranged from the individual, the following immediate family members and close relatives are presumed to have, or be subject to, such influence as to satisfy the definition of close members of the family of an individual:

(a) A spouse, domestic partner, dependent child, or relative living in a common household;

(b) A grandparent, parent, nondependent child, grandchild, brother, or sister; and

(c) The spouse or domestic partner of a child, a parent-in-law, a brother-in-law, or a sister-in-law.

Key Management Personnel

6. Key management personnel include all directors or members of the governing body of the reporting entity, where that body has the authority and responsibility for planning, directing, and controlling the activities of the entity. At the whole-of-government level, the governing body may consist of elected or appointed representatives (for example, a president or governor, ministers, councilors and aldermen or their nominees).

7. Where an entity is subject to the oversight of an elected or appointed representative of the governing body of the government to which the entity belongs, that person is included in key management personnel, if the oversight function includes the authority and responsibility for planning, directing, and controlling the activities

of the entity. In many jurisdictions, key advisors of that person may not possess sufficient authority, legal or otherwise, to satisfy the definition of key management personnel. In other jurisdictions, key advisors of that person may be deemed to be key management personnel because they have a special working relationship with an individual who has control over an entity. They therefore have access to privileged information, and may also be able to exercise control or significant influence over an entity. Judgment is required in assessing whether an individual is a key advisor, and whether that advisor satisfies the definition of key management personnel, or is a related party.

8. The governing body, together with the chief executive and senior management group, has the authority and responsibility to plan and control the activities of the entity, to manage the resources of the entity and for the overall achievement of entity objectives. Therefore, key management personnel will include the chief executive and senior management group of the reporting entity. In some jurisdictions, civil servants will not have sufficient authority and responsibility to qualify as key management personnel (as defined by this Standard) of the whole-of-government reporting entity. In these cases, key management personnel will consist only of those elected members of the governing body who have the greatest responsibility for the government; often these persons are referred to as Cabinet Ministers.

9. The senior management group of an economic entity may comprise individuals from both the controlling entity and other entities that collectively make up the economic entity.

Related Parties

10. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

11. Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.

12. In the context of this Standard, the following are deemed not to be related parties:

    (a) Providers of finance in the course of their business in that regard; and

        (i) Trade unions;

        (ii) in the course of their normal dealings with an entity by virtue only of those dealings (although they may circumscribe the freedom of action of an entity or participate in its decision-making process); and

    (b) An entity with which the relationship is solely that of an agency.

13. Related party relationships may arise when an individual is either a member of the governing body or is involved in the financial and operating decisions of the reporting entity. Related party relationships may also arise through external operating relationships between the reporting entity and the related party. Such relationships will often involve a degree of economic dependency.

14. Economic dependency, where one entity is dependent on another in that it relies on the latter for a significant volume of its funding or sale of its goods and services, would on its own be unlikely to lead to control or significant influence and is therefore unlikely to give rise to a related party relationship. As such, a single customer, supplier, franchisor, distributor, or general agent with whom a public sector entity transacts a significant volume of business will not be a related party merely by virtue of the resulting economic dependency. However, economic dependency, together with other factors, may give rise to significant influence, and therefore a related party relationship. Judgment is required in assessing the impact of

economic dependence on a relationship. Where the reporting entity is economically dependent on another entity, the reporting entity is encouraged to disclose the existence of that dependency.

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures.

Remuneration of Key Management Personnel

16. Remuneration of key management personnel includes remuneration derived by individuals from the reporting entity for services provided to the reporting entity in their capacity as members of the governing body or employees. Benefits derived directly or indirectly from the entity for services in any capacity, other than as an employee or a member of the governing body, do not satisfy the definition of remuneration of key management personnel in this Standard. However, paragraph 34 requires disclosures to be made about certain of these other benefits. Remuneration of key management personnel excludes any consideration provided solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity, such as the reimbursement of accommodation costs associated with work-related travel.

Voting Power

17. The definition of related party will include any individuals owning, directly or indirectly, an interest in the voting power of the reporting entity that gives them significant influence over the entity. The holding of an interest in the voting power of an entity can arise when a public sector entity has a corporate structure, and a minister or government agency holds shares in the entity.

The Related Party Issue

18. Related party relationships exist throughout the public sector, because:

    (a) Administrative units are subject to the overall direction of the executive government and, ultimately, the Parliament or similar body of elected or appointed officials, and operate together to achieve the policies of the government;

    (b) Government departments and agencies frequently conduct activities necessary for the achievement of different components of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence; and

    (c) Ministers or other elected or appointed members of the government and senior management group can exert significant influence over the operations of a department or agency.

19. Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and enables users to better understand the financial statements of the reporting entity because:

    (a) Related party relationships can influence the way in which an entity operates with other entities in achieving its individual objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;

    (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of the relationship; and

(c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This occurs frequently in government departments and agencies, where goods and services are transferred between departments at less than full cost recovery as a part of normal operating procedures consistent with the achievement of the objectives of the reporting entity and the government. Governments and individual public sector entities are expected to use resources efficiently, effectively, and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another.

20. Disclosure of certain types of related party transactions that occur, and the terms and conditions on which they were conducted, allows users to assess the impact of those transactions on the financial position and performance of an entity, and its ability to deliver agreed services. This disclosure also ensures that the entity is transparent about its dealings with related parties.

Remuneration of Key Management Personnel

21. Key management personnel hold positions of responsibility within an entity. They are responsible for the strategic direction and operational management of an entity, and are entrusted with significant authority. Their salaries are often established by statute, or an independent tribunal or other body independent of the reporting entity. However, their responsibilities may enable them to influence the benefits of office that flow to them or their related parties. This Standard requires certain disclosures to be made about (a) the remuneration of key management personnel and close members of the family of key management personnel during the reporting period, (b) loans made to them, and (c) the consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee. The disclosures required by this Standard will ensure that appropriate minimum levels of transparency are applied to the remuneration of key management personnel and close members of the family of key management personnel.

Materiality

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

Disclosure

23. In many countries, the laws and other authoritative financial reporting rules require financial statements of private sector entities and commercial public sector entities to disclose information about certain categories of related parties and related party transactions. In particular, attention is focused on the entity's transactions with its directors or members of its governing body and with its senior management group, especially their remuneration and borrowings. This is (a) because of the fiduciary responsibilities of directors, members of the governing body, and senior management group, and (b) because they have extensive powers over the deployment of entity resources. In some jurisdictions, similar requirements are included in the statutes and regulations applicable to public sector entities.

24. Some IPSAS also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates, and other related parties. IPSAS 38, *Disclosure of Interests in Other Entities*, requires an entity to disclose information that enables users of its consolidated financial statements to understand the

composition of the economic entity and information about each joint arrangement and associate that is material to the reporting entity.

Disclosure of Control

25. **Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties.**

26. In order for a reader of financial statements to form a view about the effects of related party relationships on a reporting entity, it is appropriate to disclose related party relationships where control exists, irrespective of whether there have been transactions between the related parties. This would involve the disclosure of the names of any controlled entities, the name of the immediate controlling entity, and the name of the ultimate controlling entity, if any.

Disclosure of Related Party Transactions

27. **In respect of transactions between related parties, other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances, the reporting entity shall disclose:**

    (a) **The nature of the related party relationships;**

    (b) **The types of transactions that have occurred; and**

    (c) **The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and faithfully representative information for decision making and accountability purposes.**

28. The following are examples of situations where related party transactions may lead to disclosures by a reporting entity:

    (a) Rendering or receiving of services;

    (b) Purchases or transfers/sales of goods (finished or unfinished);

    (c) Purchases or transfers/sales of property and other assets;

    (d) Agency arrangements;

    (e) Leasing arrangements;

    (f) Transfer of research and development;

    (g) License agreements;

    (h) Finance (including loans, capital contributions, grants whether in cash or in kind, and other financial support, including cost-sharing arrangements); and

    (i) Guarantees and collaterals.

29. Public sector entities transact extensively with each other on a daily basis. These transactions may occur at cost, less than cost or free of charge. For example, a government department of administrative services may provide office accommodation free of charge to other departments, or a public sector entity may act as a purchasing agent for other public sector entities. In some models of government, there may be the capacity for recovery of more than the full cost of service delivery. Departments are related parties because they are subject to common control, and these transactions meet the definition of related party transactions. However, disclosure of information about transactions between these entities is not required where the transactions (a) are consistent with normal operating relationships between the entities, and (b) are undertaken on terms and

conditions that are normal for such transactions in these circumstances. The exclusion of these related party transactions from the disclosure requirements of paragraph 27 reflects that public sector entities operate together to achieve common objectives, and acknowledges that different mechanisms may be adopted for the delivery of services by public sector entities in different jurisdictions. This Standard requires disclosures of related party transactions only when those transactions occur other than in accordance with the operating parameters established in that jurisdiction.

30. The information about related party transactions that would need to be disclosed to meet the objectives of general purpose financial reporting would normally include:

(a) A description of the nature of the relationship with related parties involved in these transactions, for example, whether the relationship was one of a controlling entity, a controlled entity, an entity under common control, or key management personnel;

(b) A description of the related party transactions within each broad class of transaction and an indication of the volume of the classes, either as a specific monetary amount or as a proportion of that class of transactions and/or balances;

(c) A summary of the broad terms and conditions of transactions with related parties, including disclosure of how these terms and conditions differ from those normally associated with similar transactions with unrelated parties; and

(d) Amounts or appropriate proportions of outstanding items.

31. Paragraph 34 of this Standard requires additional disclosures to be made about certain transactions between an entity and key management personnel and/or the close members of the family of key management personnel.

32. **Items of a similar nature may be disclosed in aggregate, except when separate disclosure is necessary to provide relevant and faithfully representative information for decision-making and accountability purposes.**

33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements, because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity, except for those between an investment entity and its controlled entities measured at fair value through surplus or deficit, are eliminated on consolidation in accordance with IPSAS 35, *Consolidated Financial Statements*. Transactions with associated entities accounted for under the equity method are not eliminated, and therefore require separate disclosure as related party transactions.

Disclosure—Key Management Personnel

34. **An entity shall disclose:**

(a) **The aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;**

(b) **The total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period, showing separately the aggregate amounts provided to:**

(i) **Key management personnel; and**

(ii) **Close members of the family of key management personnel; and**

(c) **In respect of loans that are not widely available to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each individual member of key management personnel and each close member of the family of key management personnel:**

(i) **The amount of loans advanced during the period and terms and conditions thereof;**

(ii) **The amount of loans repaid during the period;**

(iii) **The amount of the closing balance of all loans and receivables; and**

(iv) **Where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such body or group.**

35. Paragraph 27 of this Standard requires the disclosure of related party transactions that have occurred other than on an arm's length basis consistent with the operating conditions established for the entity. This Standard also requires the disclosure of information about certain transactions with key management personnel identified in paragraph 34, whether or not they have occurred on an arm's length basis consistent with the operating conditions that apply in respect of the entity.

36. Persons who are key management personnel may be employed on a full- or part-time basis. The number of individuals disclosed as receiving remuneration in accordance with paragraph 34(a) needs to be estimated on a full-time equivalent basis. Entities will make separate disclosures about the major classes of key management personnel that they have. For example, where an entity has a governing body that is separate from its senior management group, disclosures about remuneration of the two groups will be made separately. Where an individual is a member of both the governing body and the senior management group, that individual will be included in only one of those groups for the purposes of this Standard. The categories of key management personnel identified in the definition of key management personnel provide a guide to identifying classes of key management personnel.

37. Remuneration of key management personnel can include a variety of direct and indirect benefits. Where the cost of these benefits is determinable, that cost will be included in the aggregate remuneration disclosed. Where the cost of these benefits is not determinable, a best estimate of the cost to the reporting entity or entities will be made and included in the aggregate remuneration disclosed.

38. Requirements on the measurement of employee benefits are found in IPSAS 39, *Employee Benefits*. When non-monetary remuneration that is able to be reliably[1] measured has been included in the aggregate amount of remuneration of key management personnel disclosed for the period, disclosure would also be made in the notes to the financial statements of the basis of measurement of the non-monetary remuneration.

39. This Standard requires the disclosure of certain information about the terms and conditions of loans made to key management personnel and close members of the family of key management personnel, where these loans:

(a) Are not widely available to persons outside the key management group; and

(b) May be widely available outside the key management group, but whose availability is not widely known to members of the public.

The disclosure of this information is required for accountability purposes. The exercise of judgment may be necessary in determining which loans should be disclosed to satisfy the requirements of this Standard. That

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

judgment should be exercised after consideration of the relevant facts, and in a manner consistent with the achievement of the objectives of financial reporting.

40. Paragraph 34(a) of this Standard requires disclosure of the aggregate remuneration of key management personnel. Key management personnel include directors or members of the governing body and members of the senior management group of the entity. Directors or members of the governing body of the entity may also receive remuneration or compensation from the entity for services provided in a capacity other than (a) as director or member of the governing body of the entity, or (b) as an employee of the entity. Paragraph 34(b)(i) of this Standard requires the disclosure of the total amount of this other remuneration or compensation.

41. Close members of the family of key management personnel may influence, or be influenced by, key management personnel in their transactions with the reporting entity. Paragraph 34(b)(ii) of this Standard requires the disclosure of the total remuneration and compensation provided during the period to close members of the family of key management personnel.

Effective Date

42. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2004. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2004, it shall disclose that fact.**

42A. **Paragraph 43 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

42B. **IPSAS 35, *Consolidated Financial Statements* IPSAS 37, *Joint Arrangements* and IPSAS 38, *Disclosure of Interests in Other Entities*, issued in January 2015, amended paragraphs 4, 15, 24 and 33. An entity shall apply those amendments when it applies IPSAS 35, IPSAS 37, and IPSAS 38.**

42C. **Paragraphs 27 and 32 were amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2017 it shall disclose that fact.**

42D. **Paragraphs 2 and 3 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

42E. **Paragraph 38 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

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

43. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 20.

Revision of IPSAS 20 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC1. The IPSASB issued *The Applicability of IPSAS in* April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 20.

Disclosure—Government X

The following disclosures are made in the financial statements of Government X.

Controlled Entities (Paragraph 25)

The Government controls the following reporting entities:

Government Departments and Agencies: Education, Welfare, Police, Post, Works and Services, Defense, Justice, Treasury/Finance, Department X, Agency XYZ (identify all departments and agencies).

Commercial Public Sector Entities: Government Electricity Company, Government Telecommunications Company (identify all commercial public sector entities).

(Note: IPSAS 35, requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

A member of Cabinet was provided with a house, rent free, in the national Capital City. Houses similar to that provided to the Minister rent for approximately Z currency units per annum. The provision of accommodation is not part of the remuneration package of the Minister, and the Government does not generally provide free accommodation to ministers. However, in this case it was necessary to provide a residence for the Minister in the Capital City.

The partner of another member of Cabinet was provided with a motor vehicle, rent free. Cars similar to that provided normally rent for K currency units per annum. The government does not generally provide motor vehicles, rent free, to the domestic partners of ministers.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by IPSAS 20, *Related Party Disclosures*) are the members of Cabinet, who together constitute the governing body of Government X. The aggregate remuneration of members of the Cabinet and the number of individuals determined on a full-time equivalent basis receiving remuneration from Government X are:

Aggregate remuneration	X million.
Number of persons	Y persons.

Loans That are not Widely Available (and/or Widely Known) to Persons Outside the Key Management Group (paragraph 34(c))

Amounts of such loans advanced and repaid during the period, and the balances outstanding at the end of the period, are outlined below:

Individual	Advanced	Repaid	Balance
The Honorable ABC	J	K	L
Ms. VSL	M	N	P
The Honorable D	Q	R	Z
The Honorable E	S	T	U

Terms and Conditions

The Honorable ABC, Minister of Transport, received a loan at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

Ms. VSL, partner of the Minister of Health, received a government loan. The loan is for N years at X% per annum, the current government borrowing rate.

The salary packages of Cabinet Ministers the Honorable D and E allow them to take out a government loan for up to A years at Y% per annum to purchase a car.

Other Remuneration and Compensation Provided to Key Management Personnel and their Close Family Members (paragraph 34(b))

During the reporting period, total compensation of X amount (currency units) was provided to members of the Cabinet for consulting services provided to particular government agencies.

During the reporting period, the government provided total remuneration and compensation of Y amount (currency units) to close family members of key management personnel. This amount consists of the remuneration of government employees who are close members of the family of members of the Cabinet.

Disclosure—Government Agency XYZ

These disclosures are made in the financial statements of Government Agency XYZ, which is a separate reporting entity.

Controlled Entities (Paragraph 25)

The Agency is controlled by Department X. Department X is controlled by Government X.

The Agency controls the Administration Services Unit, which is a commercial public sector entity.

(Note: IPSAS 35, requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

The Agency provided a house, rent free, to the Minister. Houses similar to that provided to the Minister rent for approximately Z currency units per annum. The house is not part of the remuneration package of the Minister and, as a matter of operating procedure, government agencies do not provide residential accommodation to ministers. However, Government X advised that the house should be provided on this occasion.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by IPSAS 20) of Agency XYZ are the Minister, the members of the governing body, and the members of the senior management group. The governing body consists of members appointed by Government X; the chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Agency XYZ. The aggregate remuneration of members of the governing body and the number of members determined on a full-time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration	AX million.
Number of persons	AY persons.

The senior management group consists of the Agency's chief executive officer, the chief financial officer, and the AZ heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration AP million.

Number of persons AQ persons.

Two division heads are on secondment from Department X, and are remunerated by Department X.

Loans That are not Widely Available (and/or Widely Known) to Persons Outside the Key Management Group (paragraph 34(c))

Amounts advanced and repaid during the period and balance outstanding at the end of the period:

Individual	Advanced	Repaid	Balance
The Minister	J	K	L
Mr. G	M	N	P
Ms. H	Q	R	Z

Terms and Conditions

The Minister received a loan of J currency units, at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

The salary package of senior staff members, Mr. G and Ms. H, allows them to take out a government loan for up to N years at Y% per annum to purchase a car.

Remuneration and Compensation Provided to Close Family Members of Key Management Personnel (paragraph 34(b))

During the reporting period, total remuneration and compensation of F amount (currency units) was provided by the Agency to employees who are close family members of key management personnel.

COMPARISON WITH IAS 24

IPSAS 20 is drawn primarily from IAS 24 (Reformatted 1994). The main differences between IPSAS 20 and IAS 24 are as follows:

- The structure of IPSAS 20 differs substantially from that of IAS 24.
- The exclusion from the scope of IAS 24 of wholly-owned subsidiaries where the parent entity is domiciled in the same country and provides consolidated financial statements in that country has not been adopted in IPSAS 20.
- Commentary that identifies key management personnel in IAS 24 has been included in a formal definition of “key management personnel” in IPSAS 20. The commentary in IAS 24 includes close members of the family; the definition of “key management personnel” in IPSAS 20 does not include close members of the family.
- The definition of “related party” in IPSAS 20 includes related party relationships that are only noted in commentary in IAS 24.
- IPSAS 20 includes a definition of “remuneration of key management personnel.” IAS 24 does not include this definition.
- IPSAS 20 contains additional disclosure requirements in relation to (a) the remuneration of key management personnel and their close family members, and (b) certain other transactions between an entity and its key management personnel and their close family members.
- Except for limited disclosures about the remuneration of, and certain other specified transactions with, key management personnel, IPSAS 20 does not require the disclosure of information about transactions between related parties that occur on normal terms and conditions. IAS 24 has more limited exclusions for related party transactions that occur in the course of normal dealings between the parties.
- IPSAS 20 uses different terminology, in certain instances, from IAS 24. The most significant example is the use of the terms “members of the governing body” in IPSAS 20. The equivalent term in IAS 24 is “directors.”

IPSAS 21, *IMPAIRMENT OF NON-CASH-GENERATING ASSETS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 36 (2004), *Impairment of Assets*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 36 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 21, *IMPAIRMENT OF NON-CASH-GENERATING ASSETS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 21, *Impairment of Non-Cash-Generating Assets* was issued in December 2004.

Since then, IPSAS 21 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 26, *Impairment of Cash-Generating Assets* (issued February 2008)

Table of Amended Paragraphs in IPSAS 21

Paragraph Affected	How Affected	Affected By
2	Amended	IPSAS 29 January 2010

Paragraph Affected	How Affected	Affected By
		IPSAS 31 January 2010 *Impairment of Revalued Assets* July 2016 IPSAS 41 August 2018 IPSAS 44 May 2022 IPSAS 46 May 2023 IPSAS 47 May 2023
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Amended	IPSAS 26 February 2008
6	Amended	IPSAS 26 February 2008 *The Applicability of IPSAS* April 2016
7	Deleted	*Impairment of Revalued Assets* July 2016
8	Amended	IPSAS 44 May 2022 IPSAS 47 May 2023
9	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
10	Amended	IPSAS 46 May 2023
10A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
11	Deleted	*Impairment of Revalued Assets* July 2016
12	Amended	*Improvements to IPSAS* November 2010 IPSAS 45 May 2023
13	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015 IPSAS 41 August 2018
14	Amended	IPSAS 26 February 2008 IPSAS 40 January 2017 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
15	Deleted	*The Applicability of IPSAS* April 2016
16[1]	Amended	IPSAS 26 February 2008

[1] Subsequent paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
17	New	IPSAS 26 February 2008
18	New	IPSAS 26 February 2008
19	New	IPSAS 26 February 2008
20	New	IPSAS 26 February 2008 *The Applicability of IPSAS* April 2016
20	Amended	*Improvements to IPSAS* November 2010
20A	New	IPSAS 40 January 2017
21	Amended	*The Applicability of IPSAS* April 2016
26A	New	IPSAS 31 January 2010
26B	New	IPSAS 31 January 2010
27	Amended	*Improvements to IPSAS* October 2011 IPSAS 44 May 2022
29	Amended	IPSAS 46 May 2023
35	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
36	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
37	Amended	*Improvements to IPSAS* April 2016 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
38	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
39	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
39A	New	IPSAS 31 January 2010
Heading above paragraph 39B	Added	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
39B	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
39C	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
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Paragraph Affected	How Affected	Affected By
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50	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
54	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 45 May 2023
54A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
67	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025

Paragraph Affected	How Affected	Affected By
69	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 45 May 2023
69A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
71	Amended	IPSAS 26 February 2008
72	New	IPSAS 26 February 2008
72A	New	IPSAS 26 February 2008
73	Amended	*Impairment of Revalued Assets* July 2016
73A	New	*Improvements to IPSAS* November 2010
73A	Deleted	Editorials April 2012
75	Amended	IPSAS 45 May 2023
77	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
80	Deleted	IPSAS 33 January 2015
80A	New	*Improvements to IPSAS* October 2011
81	Deleted	IPSAS 33 January 2015
81A	New	*Impairment of Revalued Assets* July 2016
82A	New	IPSAS 31 January 2010
82B	New	*Improvements to IPSAS* October 2011
82C	New	IPSAS 33 January 2015
82D	New	IPSAS 37 January 2015 IPSAS 35 January 2015
82E	New	*The Applicability of IPSAS* April 2016
82F	New	*Impairment of Revalued Assets* July 2016
82G	New	IPSAS 39 July 2016
82H	New	IPSAS 40 January 2017
82I	Amended	*COVID-19: Deferral of Effective Dates* November 2020
82J	New	*Improvements to IPSAS* January 2020
82K	New	IPSAS 44 May 2022
82L	New	IPSAS 45 May 2023

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IE47–IE48	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025

IPSAS 21, *IMPAIRMENT OF NON-CASH-GENERATING ASSETS*

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International Public Sector Accounting Standard 21, *Impairment of Non-Cash-Generating Assets*, is set out in paragraphs 1–83. All the paragraphs have equal authority. IPSAS 21 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognized. This Standard also specifies when an entity would reverse an impairment loss, and prescribes disclosures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except:**

   (a) **Inventories (see IPSAS 12, *Inventories*);**

   (b) **Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;**

   (c) **Financial assets that are included in the scope of IPSAS 41, *Financial Instruments;***

   (d) **Investment property that is measured using the current value model (see IPSAS 16, *Investment Property);***

   (e) [Deleted]

   (f) [Deleted]

   (fa) **Non-current assets (disposal groups) classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and**

   (g) **Other assets in respect of which accounting requirements for impairment are included in another IPSAS.**

3. [Deleted]

4. [Deleted]

5. **Public sector entities that hold cash-generating assets as defined in paragraph 14, shall apply IPSAS 26, *Impairment of Cash-Generating Assets*, to such assets. Public sector entities that hold non-cash-generating assets shall apply the requirements of this Standard to non-cash-generating assets**.

6. This Standard excludes from its scope the impairment of assets that are dealt with in another IPSAS. Public sector entities apply IPSAS 26 to their cash-generating assets, and apply this Standard to their non-cash-generating assets. Paragraphs 6−13 explain the scope of the Standard in greater detail.

7. [Deleted]

8. This Standard does not apply to inventories, binding arrangement assets, and assets arising from costs to obtain or fulfill a binding arrangement or assets classified as held for sale (or included in a disposal group that is classified as held for sale) because existing IPSAS applicable to these assets contain requirements for recognizing and measuring these assets.

9. This Standard does not apply to financial assets that are included in the scope of IPSAS 28, *Financial Instruments: Presentation*. Impairment of these assets is dealt with in IPSAS 41.

10. This Standard does not require the application of an impairment test to investment property measured at fair value within the scope of IPSAS 16. This is because, under the current value model in IPSAS 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.

10A. However, this Standard applies to non-cash-generating assets that are carried at revalued amounts (i.e., fair value or current operational value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in IPSAS 45, *Property, Plant, and Equipment* and the current value model in IPSAS 31, *Intangible Assets*.

(a) [Deleted]

(b) [Deleted]

11. [Deleted]

12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the current value model in IPSAS 45 are dealt with under IPSAS 26.

13. Investments in:

(a) Controlled entities, as defined in IPSAS 35, *Consolidated Financial Statements*;

(b) Associates, as defined in IPSAS 36, *Investments in Associates and Joint Ventures*; and

(c) Joint arrangements, as defined in IPSAS 37, *Joint Arrangements*;

are financial assets that are excluded from the scope of IPSAS 41. Where such investments are classified as cash-generating assets, they are dealt with under IPSAS 26. Where these assets are non-cash-generating assets, they are dealt with under this Standard.

Definitions

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

Cash-generating assets are assets held with the primary objective of generating a commercial return. For the purposes of impairment, goodwill is considered a cash-generating asset.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Fair value less costs to sell is the price that would be received to sell the asset in an orderly transaction between market participants less the costs of disposal.

An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Non-cash-generating assets are assets other than cash-generating assets.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its current operational value.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

The following term is defined and used in this Standard with the same meaning as in IPSAS 45:

(a) **Useful life.**

The following terms are defined and are used in this Standard with the same meaning as in IPSAS 46, *Measurement*:

(a) **Active market;**

(b) **Current operational value; and**

(c) **Fair Value.**

Government Business Enterprises

15. [Deleted]

Cash-Generating Assets

16. Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a commercial return indicates that an entity intends to generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return, even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset, even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to an asset or assets in the following paragraphs of this Standard are references to non-cash-generating asset(s).

17. There are a number of circumstances in which public sector entities may hold some assets with the primary objective of generating a commercial return, although the majority of assets are not held for that purpose. For example, a hospital may deploy a building for fee-paying patients. Cash-generating assets of a public sector entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

18. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

19. In other instances, an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or IPSAS 26. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies IPSAS 26 rather than this Standard.

20. In some cases, it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases, it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable rather than IPSAS 26. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets, and with the related guidance in paragraphs 16–20. Paragraph 73A requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of most public sector entities the presumption is that assets are non-cash-generating and, therefore, IPSAS 21 will apply.

20A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. This Standard deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in this Standard includes service potential. Consequently, an entity applies IPSAS 26 rather than this Standard to determine whether to impair goodwill.

21. Assets held by commercial public sector entities are cash-generating assets. Public sector entities may hold assets to generate a commercial return. For the purposes of this Standard, an asset held by a public sector entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) is operated with the objective of generating a commercial return through the provision of goods and/or services to external parties.

Depreciation

22. Depreciation and amortization are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term amortization is generally used instead of depreciation. Both terms have the same meaning.

Impairment

23. This Standard defines an impairment as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortization). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, an entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired, as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Identifying an Asset that may be Impaired

24. Paragraphs 26−34 specify when recoverable service amounts would be determined.

25. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph 27 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.

26. **An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.**

26A. **Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

26B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

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

External sources of information

(a) **Cessation, or near cessation, of the demand or need for services provided by the asset;**

(b) **Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;**

Internal sources of information

(c) **Evidence is available of physical damage of an asset;**

(d) **Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite;** [2]

(e) **A decision to halt the construction of the asset before it is complete or in a usable condition; and**

(f) **Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.**

28. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are utilized in providing those services, but negative fluctuations in demand are not necessarily indications of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired. Demand may be considered to have nearly ceased when it is so low that the entity (a) would not have attempted to respond to that demand, or (b) would have responded by not acquiring the asset being considered for impairment testing.

29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:

(a) There are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use; or

(b) A significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

30. The events or circumstances that may indicate an impairment of an asset will be significant, and will often have prompted discussion by the governing board, management, or media. A change in a parameter such as demand for the service, extent or manner of use, legal environment, or government policy environment

[2] Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations.*

would indicate impairment only if such a change was significant, and had or was anticipated to have a long-term adverse effect. A change in the technological environment may indicate that an asset is obsolete, and requires testing for impairment. A change in the use of an asset during the period may also be an indication of impairment. This may occur when, for example, a building used as a school undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change, and the entity's assessments at each reporting date would reflect that. The Implementation Guidance sets out examples of impairment indications referred to in paragraph 27.

31. In assessing whether a halt in construction would trigger an impairment test, the entity would consider (a) whether construction has simply been delayed or postponed, (b) whether there is an intention to resume construction in the near future, or (c) whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work-in-progress and is not considered as halted.

32. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 27(f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:

    (a) Significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and

    (b) Significantly lower service or output levels provided by the asset, compared with those originally expected due to poor operating performance.

    A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

33. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 27.

34. If there is an indication that an asset may be impaired, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value for the asset needs to be reviewed and adjusted in accordance with the IPSAS applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring Recoverable Service Amount

35. This Standard defines recoverable service amount as the higher of an asset's fair value, less costs to sell, and its current operational value. Paragraphs 36–50 set out the basis for measuring recoverable service amount.

36. It is not always necessary to determine both an asset's fair value less costs to sell and its current operational value. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.

37. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. IPSAS 46 identifies three measurement techniques: the cost approach, market approach, and income approach. Appendix D Fair Value of IPSAS 46 provides guidance on these measurement techniques and their application. However, sometimes it will not be possible to determine fair value less costs to sell, because there is no basis for making a reliable[3] estimate of the amount obtainable from the sale of the asset in an orderly transaction. In this case, the entity may use the asset's current operational value as its recoverable service amount.

38. If there is no reason to believe that an asset's current operational value materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable service amount. However, for many public sector non-cash-generating assets that are held on an ongoing basis to provide specialized services or public goods to the community, the current operational value of the asset is likely to be greater than its fair value less costs to sell.

39. In some cases, estimates, averages, and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or current operational value.

Measuring the Recoverable Service Amount of an Intangible Asset with an Indefinite Useful Life

39A. Paragraph 26A requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable service amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

(a) If the intangible asset does not provide service potential from continuing use that is largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;

(b) The most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

(c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

Current Operational Value

39B. Appendix B Current Operational Value of IPSAS 46 provides authoritative guidance on current operational value, including the components of the definition and the measurement techniques to estimate current operational value.

39C. Current operational value is likely to be relevant to the determination of recoverable service amount for many assets held for the delivery of services, especially assets which are specialized, and where there are restrictions on an alternative use to that for which the asset is currently deployed.

[3] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Fair Value Less Costs to Sell

40. Appendix D of IPSAS 46 provides authoritative guidance on fair value. The best evidence of an asset's fair value less costs to sell is an observable price in an active market, adjusted for incremental costs that would be directly attributable to the disposal of the asset. Appendix D of IPSAS 46 discusses measurement techniques to determine fair value indirectly and the fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value.

41. [Deleted]

42. [Deleted]

43. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in IPSAS 39, *Employee Benefits*,) and costs associated with reducing or reorganizing a business following the disposal of an asset, are not direct incremental costs to dispose of the asset.

44. [Deleted]

45. [Deleted]

46. [Deleted]

47. [Deleted]

48. [Deleted]

49. [Deleted]

50. [Deleted]

Recognizing and Measuring an Impairment Loss

51. Paragraphs 52–57 set out the requirements for recognizing and measuring impairment losses for an asset. In this Standard, impairment loss refers to impairment loss of a non-cash-generating asset unless otherwise specified.

52. **If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an impairment loss.**

53. As noted in paragraph 26, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs 27−33 identify key indications that an impairment loss may have occurred.

54. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the current value model in IPSAS 31 and IPSAS 45). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

54A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45.

55. **When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another IPSAS.**

56. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero, with a corresponding amount recognized in surplus or deficit. A liability would be recognized only if another IPSAS so requires. An example is when a purpose-built military installation is no longer used and the entity is required by law to remove such installations if not usable. The entity may need to make a provision for dismantling costs if required by IPSAS 19*, Provisions, Contingent Liabilities and Contingent Assets*.

57. **After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Reversing an Impairment Loss

58. Paragraphs 59–70 set out the requirements for reversing an impairment loss recognized for an asset in prior periods.

59. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.**

60. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

(a) **Resurgence of the demand or need for services provided by the asset;**

(b) **Significant long-term changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;**

Internal sources of information

(c) **Significant long-term changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs;**

(d) **A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and**

(e) **Evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.**

61. Indications of a potential decrease in an impairment loss in paragraph 60 mainly mirror the indications of a potential impairment loss in paragraph 27.

62. The list in paragraph 60 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, either of the following may be an indication that the impairment loss may have reversed:

(a) A significant rise in an asset's market value; or

(b) A significant long-term increase in the demand or need for the services provided by the asset.

63. A commitment to discontinue or restructure an operation in the near future is an indication of a reversal of an impairment loss of an asset belonging to the operation, where such a commitment constitutes a significant long-term change, with a favorable effect on the entity, in the extent or manner of use of that asset. Circumstances where such a commitment would be an indication of reversal of impairment often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilization of the asset. An example is an x-ray machine that has been underutilized by a clinic managed by a public hospital and, as a result of restructuring, is expected to be transferred to the main radiology department of the hospital where it will have significantly better utilization. In such a case, the commitment to discontinue or restructure the clinic's operation may be an indication that an impairment loss recognized for the asset in prior periods may have to be reversed.

64. If there is an indication that an impairment loss recognized for an asset may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the IPSAS applicable to the asset, even if no impairment loss is reversed for the asset.

65. **An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 68, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.**

66. This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraph 60 identifies key indications that an impairment loss recognized for an asset in prior periods may no longer exist or may have decreased.

67. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. Paragraph 77 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

(a) A change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on fair value less costs to sell or current operational value);

(b) If recoverable service amount was based on current operational value, a change in estimate of the components of current operational value; or

(c) If recoverable service amount was based on fair value less costs to sell, a change in estimate of the components of fair value less costs to sell.

68. **The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized for the asset in prior periods.**

69. **A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the current value model in IPSAS 31 and IPSAS 45). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

69A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. However, to the extent that an impairment loss on the same individual revalued

asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or IPSAS 45.

70. **After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Redesignation of Assets

71. **The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the listed indications applicable to the asset after redesignation.**

72. There are circumstances in which public sector entities may decide that it is appropriate to redesignate a non-cash-generating asset as a cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from a social housing unit, for which no charge is made. The social housing unit has been demolished, and the site will be developed for industrial and retail purposes. It is intended that, in future, the plant will be used to treat industrial effluent at commercial rates. In light of this decision, the public sector entity decides to redesignate the effluent treatment plant as a cash-generating asset.

Disclosure

72A. **An entity shall disclose the criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets.**

73. **An entity shall disclose the following for each class of assets:**

(a) **The amount of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included; and**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed;**

(c) **The amount of impairment losses on revalued assets recognized directly in revaluation surplus during the period; and**

(d) **The amount of reversals of impairment losses on revalued assets recognized directly in revaluation surplus during the period.**

73A. [Deleted]

74. A class of assets is a grouping of assets of similar nature and use in an entity's operations.

75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by IPSAS 45.

76. **An entity that reports segment information in accordance with IPSAS 18, *Segment Reporting,* shall disclose the following for each segment reported by the entity:**

(a) **The amount of impairment losses recognized in surplus or deficit during the period; and**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period.**

77. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period:**

(a) **The events and circumstances that led to the recognition or reversal of the impairment loss;**

(b) **The amount of the impairment loss recognized or reversed;**

(c) **The nature of the asset;**

(d) **The segment to which the asset belongs, if the entity reports segment information in accordance with IPSAS 18;**

(e) **Whether the recoverable service amount of the asset is its fair value less costs to sell or its current operational value;**

(f) **If the recoverable service amount is fair value less costs to sell, the entity shall disclose the following information**

(i) **The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement of the asset is categorized in its entirety (without taking into account whether 'costs to sell' are observable);**

(ii) **For fair value measurements categorized with Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) used to measure fair value less costs to sell. If there has been a change in measurement technique, the entity shall disclose that change and the reason(s) for making it;**

(iii) **For fair value measurements categorized with Level 2 and Level 3 of the fair value hierarchy, each key assumption on which measurement has based its determination of fair value less costs to sell. Key assumptions are those to which the asset's recoverable service amount is most sensitive**; **and**

(g) **If the recoverable service amount is current operational value, the measurement technique used to determine current operational value.**

78. **An entity shall disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognized during the period for which no information is disclosed in accordance with paragraph 77:**

(a) **The main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and**

(b) **The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**

79. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

Transitional Provisions

80. [Deleted]

80A. **The amendment to paragraph 27 shall be applied prospectively from the date of its application.**

81. [Deleted]

81A. Paragraphs 2, 54, 69 and 73 were amended, paragraphs 7 and 11 were deleted, and paragraphs 54A and 69A were added by *Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) in July 2016. Those amendments shall be applied prospectively from the date of their application.

Effective Date

82. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2006. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2006, it shall disclose that fact.**

82A. **IPSAS 31 amended paragraphs 2 and 7, and inserted paragraphs 26A, 26B, and 39A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 31 for a period beginning before April 1, 2011, the amendments shall also be applied for that earlier period.**

82B. **Paragraph 27 was amended by *Improvements to IPSAS 2011* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

82C. **Paragraphs 80, 81 and 83 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

82D. **IPSAS 35, *Consolidated Financial Statements,* and IPSAS 37, *Joint Arrangements* issued in January 2015, amended paragraph 13. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

82E. **Paragraphs 3, 4 and 15 were deleted and paragraphs 6, 20 and 21 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

82F. ***Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) amended paragraphs 2, 54, 69 and 73, deleted paragraphs 7 and 11, and added paragraphs 54A, 69A and 81A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies those amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

82G. **Paragraph 43 was amended by IPSAS 39, *Employee Benefits,* issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

82H. **Paragraph 14 was amended and paragraph 20A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

82I. **Paragraphs 2, 9 and 13 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

82J. **Paragraphs 54A and 69A were amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

82K. **Paragraphs 2, 8 and 27 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

82L. **Paragraphs 12, 54, 54A, 69, 69A, and 75 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

82M. **Paragraphs 2, 10 and 29 were amended and paragraph 10A was added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

82N. **Paragraphs 2 and 8 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

82O. **Paragraphs 10A, 14, 35–40, 67(a)–67(b), and 77(e)–77(f) are amended, paragraphs 10A(a), 10A(b), 41–42, and 44-50 are deleted, and paragraphs 39B, 39C, and 77(f)(i)–77(f)(iii) are added by Part 2 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

83. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 21.

Introduction

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

BC2. The accrual IPSAS are based on the IFRS issued by the IASB, to the extent that the requirements of those Standards are applicable to the public sector. The requirements of this Standard have been developed consistent with that policy. IAS 36 requires entities to determine the recoverable amount of an asset if there are indications that the asset is impaired. The recoverable amount of an asset is defined as the higher of value in use and fair value less costs to sell of the asset. This Standard includes a similar definition.

BC3. IAS 36 applies to cash-generating assets and cash-generating units, while this Standard applies to individual non-cash-generating assets. This results in a number of differences between the two standards. The main differences are:

(a) The method of measurement of value in use of a non-cash-generating asset under this Standard is different from that applied to a cash-generating asset under IAS 36;

(b) This Standard does not require entities to apply an impairment test to property, plant, and equipment carried at revalued amounts; and

(c) This Standard does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that impairment may exist.

The IPSASB's reasons for making these departures from the requirements of IAS 36 are explained in the paragraphs below.

BC4. An Invitation to Comment (ITC), *Impairment of Assets*, issued in 2000 proposed an approach to accounting for impairment of the assets of public sector entities that applied IAS 36 to the extent that it was appropriate. ED 23, *Impairment of Assets*, was developed after consideration of responses to the ITC and issued in 2003. This Standard was developed after consideration of the responses to ED 23.

Cash-Generating Assets

BC5. IAS 36 requires an entity to determine value in use as the present value of estimated future cash flows expected to be derived (a) from the continuing use of the asset, or cash-generating unit, and (b) from its disposal at the end of its useful life. The service potential of cash-generating assets is reflected by their ability to generate future cash flows. IPSAS 26 is based on IAS 36. The requirements of IPSAS 26 are applicable to cash-generating assets held by public sector entities. This Standard requires entities to apply IPSAS 26 to account for impairment of cash-generating assets in the public sector.

BC5A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The

IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

Non-Cash-Generating Assets

BC6. In considering the principles underpinning a value in use concept applicable to non-cash-generating assets, the IPSASB agreed that the value in use of a non-cash-generating asset should be measured by reference to the present value of the remaining service potential of the asset. This replicates the approach taken by IAS 36.

Determination of Value in Use

BC7. Determining value in use (present value of remaining service potential) of a non-cash-generating asset may be approached in a number of ways. One approach that replicates IAS 36 involves estimating and discounting cash inflows that would have arisen had the entity sold its services or other outputs in the market. However, the IPSASB is of the view that it is unlikely that this approach could be used in practice, due to the complexities involved in determining the appropriate prices at which to value the service or other output units and estimating the appropriate discount rate.

BC8. Other approaches reflect an implicit determination of value in use. In this respect, the IPSASB considered the market value approach, and approaches that measure depreciated replacement cost, and include consideration of restoration cost and service units.

Market value approach

BC9. Under this approach, where an active market exists for the asset, the value in use of the non-cash-generating asset is measured at the observable market value of the asset. Where an active market for the asset is not available, the entity uses the best available market evidence of the price at which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which market participants would be prepared to pay in the prevailing circumstances. The IPSASB noted that the use of the observable market value as a proxy for value in use was redundant, since market value differed from the fair value less costs to sell (the other arm of the recoverable service amount estimate) of the asset only by the amount of the costs of disposal. Therefore the market value would be effectively captured by the fair value less costs to sell arm of recoverable service amount.

Depreciated replacement cost approach

BC10. Under this approach, the value in use of the asset is determined as the lowest cost at which the gross service potential embodied in the asset could be obtained in the normal course of operations, less the value of the service potential already consumed. This approach assumes that the entity replaces the remaining service potential of the asset if it is deprived of it. An asset may be replaced either through reproduction (such as specialized assets) or through replacement of its gross service potential. Therefore, value in use is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

BC11. This approach is usually used when impairment losses arise from damage. Under this approach, the value in use of the asset is determined by subtracting the estimated restoration cost of the asset from the depreciated replacement or reproduction cost of the asset before impairment.

Service units approach

BC12. This approach determines the value in use of the asset by reducing the depreciated replacement or reproduction cost of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state.

Approaches adopted

BC13. The IPSASB agreed that the value in use of a non-cash-generating asset will be measured using the depreciated replacement cost, the restoration cost, or the service units approaches cited above as appropriate.

Other Assets

BC14. IPSAS 21 contains specific requirements for testing intangible assets for impairment, and for recognizing and measuring impairment losses related to intangible assets. These requirements complement the requirements of IPSAS 31, *Intangible Assets*. Non-cash-generating intangible assets measured at cost are included in the scope of this Standard and should be tested for impairment according to the requirements of this Standard.

Group of Assets and Corporate Assets

BC15. Under IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset's cash-generating unit (CGU) will be determined. The CGU is the smallest identifiable group of assets (a) that generates cash inflows from continuing use, and (b) that is largely independent of the cash inflows from other assets or groups of assets. The IPSASB considered the concept of a service-generating unit in a non-cash-generating context. It noted that as the requirements in this Standard are applied to individual assets, the adoption of such a concept by analogy to the CGU concept in IAS 36 is unnecessary, because it is possible to identify the service potential of individual assets. Moreover, its adoption would introduce undue complexities in accounting for impairment of non-cash-generating assets.

BC16. Under IAS 36, assets other than goodwill that contribute to the future cash flows of two or more CGUs are regarded as corporate assets. In a cash-generating context, because corporate assets do not generate separate cash inflows, the impairment of corporate assets are dealt with as part of the impairment of the cash-generating unit to which the corporate assets belong. The IPSASB observed that in a non-cash-generating context, the concept of a service-generating unit is not warranted, as noted in paragraph BC15 above. The IPSASB further noted that such assets are often an integral part of the service delivery function and their impairment is to be dealt with as for any other non-cash-generating assets of the entity.

Property, Plant, and Equipment and Intangible Assets

BC17. When this Standard was issued in December 2004, it did not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the revaluation model in IPSAS 17 and IPSAS 31. The IPSASB was then of the view that under the revaluation model in IPSAS 17 and IPSAS 31, assets would be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date, and any impairment would be taken into account in the valuation. Therefore, any difference between the asset's carrying amount and its fair value less costs to sell would be the disposal costs. The IPSASB was then of the view that, in most cases, these would not be material and, from a practical viewpoint, it was not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

BC18. In contrast to this Standard, IAS 36 requires entities to test revalued assets for impairment after they have been revalued. The rationale for this difference was explained by reference to the factors set out in paragraphs BC19 and BC20 below.

BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs of disposal and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches were also adopted to measure fair value under IPSAS 31 and IPSAS 45 and therefore the value in use was a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs of disposal and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.

BC19A. The IPSASB has since issued IPSAS 46, which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, with guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the restoration cost approach and the service units approach were appropriate to estimate fair value. The IPSASB noted that the alternatives included in IPSAS 17 and IPSAS 31 are inconsistent with measurement techniques available in IPSAS 46 to measure fair value. The IPSASB agreed to update the definition of fair value in IPSAS 31 to align with IPSAS 46, and replaced IPSAS 17 with IPSAS 45, *Property, Plant, and Equipment*.

BC20. Secondly, the requirement under IAS 36 to combine non-cash-generating assets with cash-generating assets to form a cash-generating unit is not replicated in this Standard. Under IAS 36, where an asset does not produce cash inflows, it is combined with other assets to form a cash-generating unit, the value in use of which is then measured. The sum of the fair values of the assets that make up a cash-generating unit may be different to the value in use of the cash-generating unit.

***Impairment of Revalued Assets* (Amendments to IPSAS 21 and IPSAS 26)**

BC20A. As a consequence of requests from jurisdictions that apply IPSAS, in 2015 the IPSASB revisited the original decision to exclude revalued property, plant, and equipment and intangible assets from the scope of IPSAS 21.

BC20B. When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC19 and BC20 for the different requirements in IPSAS 21 and IAS 36 remained sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31. In developing IPSAS 45, the IPSASB concluded that the same impairment principles should apply when revaluing assets to current operational value, as required by paragraph 27 of IPSAS 45.

BC20C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar manner. Paragraph 51 of IPSAS 17 had required an entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should

resolve this ambiguity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

BC20D. The IPSASB also considered it important that users are provided with the quantitative and qualitative information on impairments specified in paragraphs 77 and 78 of IPSAS 21.

BC20E. The IPSASB's objective in clarifying the ambiguity, was to ensure that impairment losses and reversals of impairment losses of a revalued asset did not require an entity to revalue the entire class of assets to which that item belongs in order to recognize an impairment loss in respect of that item.

BC20F. Although including property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 will not be overly onerous for the preparers of financial statements.

BC20G. As a result of these considerations the IPSASB approved ED 57*, Impairment of Revalued Assets*, in September 2015 and published the ED the following month.

Responses to ED 57

BC20H. The majority of the respondents to ED 57 had supported the proposals and the IPSASB's rationale. When this Standard was issued, the IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17. In developing IPSAS 45, the IPSASB concluded that the same statement should be retained.

BC20I. The IPSASB acknowledged this view but considered it inappropriate for two reasons. Firstly, such an approach did not sufficiently address the different methods of determining value in use for non-cash generating assets when evaluating an asset's recoverable service amount. Such methods are the depreciated replacement cost approach, the restoration cost approach and the service-units approach. Secondly, the approach does not provide the information needed for accountability and decision-making purposes by users that is provided by the disclosures in IPSAS 21 and IPSAS 26. The IPSASB therefore decided to effect the proposals in ED 57 in a final pronouncement.

BC20J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they were conceptually the same. However, there was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference was reflected in the statement in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained.

Impairment of Non-Cash-Generating Assets Held by GBEs

BC21. When this Standard was issued, this Standard required that the impairment of all assets held by [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) be accounted for under IAS 36. When this Standard was issued GBEs were profit-oriented entities, and the assets employed by them were primarily cash-generating assets. When this Standard was issued, the *Preface to International Public Sector Accounting Standards* made it clear that GBEs were profit-oriented

entities, and were therefore required to comply with IFRS and IAS. When this Standard was issued, individual IPSAS made it explicit that IFRS apply to GBEs. Accordingly, non-cash-generating assets were expected to be appropriately grouped with cash-generating assets of GBEs to form a cash-generating unit to be tested for impairment in accordance with IAS 36.

Indications of Impairment—Changes in Market Value

BC22. IAS 36 includes as a minimum indication of impairment that an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use. The IPSASB has included this as an additional indication of impairment, but not as a minimum indication of impairment. The IPSASB is of the view that these changes in market value do not necessarily indicate that a non-cash-generating asset is impaired. This is because non-cash-generating assets are held for reasons other than generating a commercial return; therefore, a change in market value may not reflect a change in the amount of service that the entity will recover from continued use of the asset.

Reversal of Impairment

BC23. Paragraph 60(a) includes resurgence of demand or need for services provided by the asset as a minimum indication of reversal of impairment, while paragraph 62(b) includes a significant long-term increase in demand or need for the services provided by the asset as an additional indication of possible reversal of impairment. The wording of these two indications is similar; however, they can be distinguished from each other because paragraph 60(a) refers to a resurgence of the demand that had declined and resulted in the recognition of an impairment loss. Paragraph 62(b) refers to new demand, and may be unrelated to the reason an impairment loss was recognized in respect of the asset.

BC24. Paragraph 62(a) includes a significant rise in an asset's market value as an additional indication of reversal of impairment. This does not mirror the indication of impairment in paragraph 29(a), which requires that the decline in market value be significantly more than would be expected as a result of the passage of time or normal use. This difference means that the increase in market value may be expected or unexpected.

BC25. Paragraph 27(c) includes "Evidence is available of physical damage of an asset" as a minimum indication of impairment. Paragraph 60 does not include an indication of reversal of impairment that mirrors this indication of impairment. When this Standard was issued, the IPSASB had not included repair of an asset as an indication of reversal, because IPSAS 17 required entities to add subsequent expenditure to the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. In developing IPSAS 45, the IPSASB concluded that the same guidance should be retained. This requirement also applied to investment property that was measured using the historical cost model under IPSAS 16. The IPSASB is of the view that these requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment. The IPSASB also noted that restoration or repair of damage does not constitute a change in the estimate of the asset's recoverable service amount after impairment as specified by paragraph 65 of this IPSAS. In developing IPSAS 45, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the cost model in IPSAS 17 is labeled the historical cost model in IPSAS 45 and that label consequentially applies in IPSAS 16.

Revision of IPSAS 21 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC26. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 21 as a result of *Improvements to IPSAS, 2019*

BC27. When this Standard was issued, the reference to “class of assets” in paragraphs 54A and 69A had created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17, Property, *Plant and Equipment. Stakeholders* raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31 and class of assets in the scope of IPSAS 17. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

Revision of IPSAS 21 as a result of IPSAS 46, *Measurement*

BC28. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed the concept of fair value should be retained in IPSAS 21, independent of the revised definition of fair value proposed in IPSAS 46. The IPSASB agreed any changes to the concept of fair value in IPSAS 21 should be considered as part of an IPSAS 21 specific project and in the context of estimating impairment more broadly.

Updating of IPSAS 21 as a result of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*

Reasons for Updating IPSAS 21

BC29. The IPSASB decided to update IPSAS 21 because of:

(a) The publication of IPSAS 46, *Measurement*, in May 2023, in particular the adoption of current operational value as a public sector specific current value measurement basis for assets held for operational capacity and the revised definition of, and guidance on, fair value; and

(b) Reservations expressed about the term, and description of, “value in use of a non-cash-generating asset” during the updating of Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

Scope of Limited Scope Update

BC30. Consistent with the above reasons, the scope of the update was limited to the definition, and branches, of, recoverable service amount—specifically whether current operational value should be directly or indirectly adopted as a branch of recoverable service amount and whether fair value less costs to sell should be retained as a branch of recoverable service amount. Therefore, the update did not consider other aspects of impairment including:

(a) Indications of impairment;

(b) Recognizing and measuring impairment losses;

(c) Reversals of impairment losses; and

(d) The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets.

Retention of fair value less costs to sell

BC31. The IPSASB considered whether fair value less costs to sell should be retained as a branch of recoverable service amount following the revised definition of, and guidance on, fair value in IPSAS 46. In the definition of 'fair value' in IPSAS 17, *Property, Plant, and Equipment*, the predecessor of IPSAS 45, *Property, Plant, and Equipment*, fair value could be applied to assets held for operational capacity through application of depreciated replacement cost, restoration cost, and the service units approach. Conversely, in IPSAS 46, the value premise for fair value is based on a highest and best use assumption. The definition of fair value in IPSAS 46 is therefore an exit value, which reflects the perspective of a market participant. While the revised measurement basis is appropriate for the assessment of impairments for cash-generating assets held for financial capacity, it was less clear whether it is relevant as a branch of recoverable service amount for assets held for operational capacity.

BC32. The IPSASB acknowledged concerns that the determination of fair value less costs to sell could impose unnecessary costs on preparers. However, in most cases it will be clear whether current operational value is higher than the carrying amount, and there will be no need to determine fair value less costs to sell.

BC33. The IPSASB analyzed this issue by considering the example of an office building measured at historical cost, which is used to provide educational support services. A change in the legislative environment had led to a decline in demand for such services. No decision has been made to dispose of the office building, so the building is not within the scope of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*. Individual floors of the building cannot be leased for security reasons, so the building is treated as a single unit of account. There is an active market for such office buildings.

BC34. Despite the fact that there is a permanent decline in demand for the services provided by the asset it is clear that, in light of the buoyant commercial property market, the non-specialized nature of the asset, and the fact that there are no legal restrictions on the use of the asset, fair value less costs to sell may be higher than both carrying amount and current operational value. Therefore, there is no impairment loss. A failure to determine fair value less costs to sell in these and similar circumstances may lead to recognition of an impairment loss, when the reality is that there is no loss. Recognition of such a loss will have an adverse impact on the faithful representation of financial position and financial performance.

BC35. The IPSASB therefore concluded that fair value less costs to sell may be the determinant of recoverable service amount when an asset is non-specialized and there are no restrictions on its use, so that a market participant can deploy the asset for its highest and best use. Fair value less costs to sell may also be relevant where, as a result of an impairment, a previously operative asset does not provide service potential at the measurement date but has a scrap value. Consequently, the IPSASB decided to retain fair value less costs to sell as a branch of recoverable service amount in the updated IPSAS 21.

Value in use of a non-cash-generating asset and alternatives

Introduction

BC36. The IPSASB considered three options for the retention or replacement of value in use of a non-cash-generating asset as a branch of recoverable service amount:

(a) Retain the definition of "value in use of a non-cash-generating asset", the methods of determining the present value of an asset's remaining service potential, and the accompanying guidance and illustrative examples.

(b) Use current operational value as a surrogate for "value in use of a non-cash-generating asset" as a branch of recoverable service amount.

(c) Adopt current operational value as a branch of recoverable service amount in its own right.

Approach (a): Retention of value in use of a non-cash-generating asset

BC37. Approach (a) would retain the definitions, methods, and guidance that have been in IPSASB's standards-level literature since the publication of IPSAS 21 in 2004.

BC38. IPSASB considered that the term "present value" in the definition of "value in use of a non-cash-generating asset" implies a discounted cash flow approach. IPSAS 21 identifies and provides guidance on, three approaches to determining value in use of a non-cash-generating asset — depreciated replacement cost, restoration cost and the service units approach. These approaches do not involve risk adjustments and discounting cash flows to a present value. Therefore, "value in use" is not being used in the same way as in IPSAS 26 and IAS 36.

BC39. The current requirements and guidance in IPSAS 21 are also inconsistent with IPSAS 46 and the Conceptual Framework. IPSAS 46 does not include depreciated replacement cost as a measurement technique. Unlike IPSAS 17, and IPSAS 21, IPSAS 46 does not include restoration cost or the service units approach as methods of estimating fair value for specialized items of property, plant, and equipment. The Conceptual Framework did not retain replacement cost as a measurement basis in the recently updated Chapter 7, because of the introduction of current operational value and the similarity of depreciated replacement cost and the cost approach to current operational value.

BC40. Therefore, the IPSASB rejected an approach that does not use value in use consistently with IPSASB and IASB literature and includes techniques that are no longer in IPSASB's literature on measurement.

Approach (b) Adopting current operational value as a surrogate for value in use

BC41. Unlike fair value, current operational value reflects the value of an asset in its existing use rather than the asset's highest and best use. In assessing the remaining service potential of an asset, current operational value takes into account the current age, functionality, and condition of the asset, and reflects factors such as physical, functional, and economic obsolescence.

BC42. The IPSASB considered that, because current operational value reflects the amount that an entity would pay for the remaining service potential of an asset in its existing condition, its existing use, and its existing location it reflects the value of the asset to the entity. Consequently, the IPSASB concluded that current operational value is appropriate for determining an impairment loss (or a reversal of an impairment loss) for a non-cash-generating asset held for its operational capacity.

BC43. However, the IPSASB did not support Approach (b) because it would retain the definition of "value in use of a non-cash-generating asset". As for Approach (a) this is inconsistent with the definition of "value in use" in IPSAS 26 and IAS 36.

Approach (c) Adopt current operational value as a branch of recoverable service amount in its own right.

BC44. In Approach (c) the branches of recoverable service amount are current operational value and fair value less costs to sell. Replacing value in use of a non-cash-generating asset with current operational value updates the terminology in IPSAS 21 to reflect the measurement guidance in IPSAS 46. The revised definition of recoverable service amount is consistent with the main principle of impairment testing that the carrying amount of an asset should be written down to the higher of:

(a) The value of the asset to the entity in operation (i.e., current operational value); or

(b) The amount for which the asset could be sold (i.e., fair value).

BC45. Where an entity has selected the current value model for subsequent measurement it will already be presenting assets held for operational capacity at current operational value in accordance with IPSAS 45.

The use of current operational value as a branch of recoverable service amount will therefore have cost-benefit advantages for entities that have adopted the current value model.

BC46. The IPSASB decided to adopt Approach (c) because replacing 'value in use of a non-cash-generating asset' with current operational value in the definition of recoverable service amount updates the measurement guidance in IPSAS 21 with measurement guidance in IPSAS 46 and the Conceptual Framework. Additionally, it is considered to result in cost benefits when entities have adopted the current value model in IPSAS 45.

Implications of adoption of current operational value for entities that have adopted the current value model for measurement subsequent to recognition

BC47. The IPSASB further considered the implications of the adoption of current operational value as a branch of recoverable service amount for entities that apply the current value model for measurement subsequent to recognition. In 2016, the scope of IPSAS 21 was broadened to bring property, plant, and equipment and intangible assets that are measured under the revaluation model (the predecessor of the current value model in IPSAS 46) within the scope of IPSAS 21 and IPSAS 26.

BC48. Many entities that apply the current value model for measurement subsequent to recognition, will revalue assets on a rolling program over a specified period. IPSAS 45, requires that "revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date." The IPSASB therefore concluded that the main implication of the adoption of current operational value as a branch of recoverable service amount is that entities on the current value model may have to bring forward revaluations where there is an indication that an asset might be impaired. As noted in paragraph BC20E, an impairment loss or reversal of an impairment loss of an asset does not necessitate the revaluation of the entire class of assets to which that item belongs.

Impact of impairments due to physical damage on current operational value of an asset

BC49. During the development of ED 90, the IPSASB had considered the impact of physical damage on an asset that is held for its service potential and is not operable at the measurement date. The IPSASB had acknowledged that if and when an asset is restored to its pre-impaired state, it may be able to resume the provision of services. However, following the impairment, the IPSASB was of the view that measurement of current operational value should reflect the physical condition of the asset at the measurement date. The IPSASB had proposed that if, due to its physical condition, the asset is inoperable, its current operational value is zero.

BC50. In some cases an asset that is incapable of delivering services will have a disposal value. In such cases, recoverable service amount will be represented by fair value less costs to sell.

Responses to ED 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement

BC51. In August 2024, the IPSASB published Exposure Draft (ED) 90*, Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, which proposed updating the definition of recoverable service amount to the higher of fair value less costs to sell and current operational value; and removing depreciated replacement cost, restoration cost, and service units approaches from IPSAS 21. The proposal received strong support from constituents.

BC52. Some respondents did not support the proposal to replace 'value in use of a non-cash-generating asset' with 'current operational value' in the definition of recoverable service amount in Part 2 of ED 90 and noted:

(a) The applicability of current operational value in IPSAS should be evaluated as part of a comprehensive review of IPSAS 21; or

(b) The estimation of current operational value would be challenging because of jurisdiction-specific reasons.

BC53. The IPSASB considered the issues raised by these respondents and decided to proceed with ED 90 proposals to update recoverable service amount because:

(a) The limited-scope project on IPSAS 21 was a pre-commitment from the 2021 Mid-Period Work Program Consultation. A comprehensive review of IPSAS 21 is outside the scope of the Measurement Application Phase project; and

(b) Current operational value and value in use of a non-cash generating asset share many key characteristics, such as measuring the asset's remaining service potential.

BC54. Some respondents who supported the update to the definition of recoverable service amount suggested that guidance stating that the 'current operational value of a previously operational asset that no longer provides service potential at the measurement date is zero' should be removed in Part 2 of ED 90. The IPSASB noted that this guidance is prescriptive on how to apply current operational value principles in IPSAS 46. Additionally, adding guidance on determining COV in IPSAS 21 is inconsistent with why the IPSASB developed IPSAS 46. Consequently, the IPSASB decided to delete the guidance proposed in ED 90 from the Final Pronouncement.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 21.

Indications of Impairment (paragraph 27)

External Sources of Information

Cessation, or Near Cessation, of the Demand or Need for Services Provided by the Asset.

IG1. The asset still maintains the same service potential, but demand for that service has ceased or nearly ceased. Examples of assets impaired in this manner include:

(a) A school closed because of a lack of demand for school services, arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future;

(b) A school designed for 1,500 students currently has an enrollment of 150 students – the school cannot be closed because the nearest alternative school is 100 kilometers away. The entity does not envisage the enrollment increasing. At the time of establishment, enrollment was 1,400 students – the entity would have acquired a much smaller facility had future enrollment been envisaged to be 150 students. The entity determines that demand has nearly ceased, and the recoverable service amount of the school should be compared with its carrying amount;

(c) A railway line closed due to lack of patronage (for example, the population in a rural area has substantially moved to the city due to successive years of drought, and those that have stayed behind use the cheaper bus service); and

(d) A stadium whose principal occupant does not renew its occupancy agreement, with the result that the facility is expected to close.

Significant Long-Term Changes with an Adverse Effect on the Entity in the Technological, Legal, or Government Policy Environment in Which the Entity Operates.

Technological Environment

IG2. The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

(a) Medical diagnostic equipment that is rarely or never used because a newer machine embodying more advanced technology provides more accurate results (would also meet indication (a) above);

(b) Software that is no longer being supported by the external supplier because of technological advances, and the entity does not have the personnel to maintain the software; and

(c) Computer hardware that has become obsolete as the result of technological development.

Legal or Government Policy Environment

IG3. An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indication include:

(a) An automobile that does not meet new emission standards or an airplane that does not meet new noise standards;

(b) A school that can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exits; and

(c) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal Sources of Information

Evidence is Available of Physical Damage of an Asset.

IG4. Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:

(a) A building damaged by fire or flood or other factors;

(b) A building that is closed due to identification of structural deficiencies;

(c) Sections of an elevated roadway that have sagged, indicating that these sections of roadway will need to be replaced in 15 years rather than the original design life of 30 years;

(d) A dam whose spillway has been reduced as a result of a structural assessment;

(e) A water treatment plant whose capacity has been reduced by an intake blockage, and the removal of the blockage is not economical;

(f) A bridge that is weight-restricted due to identification of structural deficiencies;

(g) A navy destroyer damaged in a collision; and

(h) Equipment that is damaged and can no longer be repaired, or for which repairs are not economically feasible.

Significant Long-Term Changes, with an Adverse Effect on the Entity, in the Extent to Which an Asset is Used, or is Expected to be Used.

IG5. The asset still maintains the same service potential, but long-term changes have an adverse effect on the extent to which the asset is used. Examples of circumstances in which assets may be impaired in this manner include:

(a) If an asset is not being used to the same degree as it was when originally put into service, or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indication is a mainframe computer that is underutilized, because many applications have been converted or developed to operate on servers or PC platforms. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used; and

(b) If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indication is a school building that is being used for storage rather than for educational purposes.

A decision to Halt the Construction of the Asset Before it is Complete or in a Usable Condition.

IG6. An asset that will not be completed cannot provide the service intended. Examples of assets impaired in this manner include those where:

(a) Construction was stopped due to identification of an archaeological discovery or environmental condition, such as a nesting ground for a threatened or endangered species; or

(b) Construction was stopped due to a decline in the economy.

The circumstances that led to the halting of construction will also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work-in-progress, and is not considered as halted.

Evidence is Available from Internal Reporting that Indicates that the Service Performance of an Asset is, or will be, Significantly Worse than Expected.

IG7. Internal reports may indicate that an asset is not performing as expected, or its performance is deteriorating over time. For example, an internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that originally budgeted.

Current Operational Value and Impairment

IG8. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date. In this Standard current operational value is one of two branches of recoverable service amount; fair value less costs to sell is the other branch.

IG9. Current operational value is an entity-specific value that represents an entry price. As indicated in paragraph 39B of this Standard, Appendix B of IPSAS 46 provides authoritative guidance on current operational value. This guidance is relevant to the application of current operational value as a branch of recoverable service amount and should be referred to when determining recoverable service amount.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 21.

IE1. [Deleted]

IE2. [Deleted]

IE3. [Deleted]

IE4. [Deleted]

IE5. [Deleted]

IE6. [Deleted]

IE7. [Deleted]

IE8. [Deleted]

IE9. [Deleted]

IE10. [Deleted]

IE11. [Deleted]

IE12. [Deleted]

IE13. [Deleted]

IE14. [Deleted]

IE15. [Deleted]

IE16. [Deleted]

Measurement of Impairment Losses

Introduction and Assumptions

IE17. The following examples illustrate the measurement of impairment losses following the identification of the indications of impairment in paragraph 27. The indications of impairment apply to assets on both the historical cost model and the current value model for measurement subsequent to recognition. The examples cover both models.

IE18. In these examples:

(a) The straight-line method of depreciation is applied. For simplicity, there is no change to useful lives.

(b) Revaluations under the current value model are assumed to have been made with sufficient regularity for the carrying amount to not differ materially from that which would be determined using the current value at the reporting date.

Indication of Impairment (a): Cessation, or near cessation, of the demand or need for services provided by the asset—Near complete cessation in demand for incinerator following closure of general hospital.

Fact Pattern

IE19. Swansway Health Authority (HA) operates an incinerator for medical waste for medical facilities in its geographical area. The incinerator was constructed in 2017 at a cost of CU600,000, with an estimated useful life of 30 years. The main general hospital accounts for 95% of the waste processed by the incinerator.

IE20. In 2023 there is a national reorganization of secondary healthcare. This reorganization involves the closure of the general hospital, apart from accident and emergency services, and the centralization of general surgery and medical specialties in the new general hospital of neighboring Goosedown HA. Following this reorganization, there is a near complete cessation of demand for the incinerator. Swansway HA does not think that there is any prospect of demand returning to previous levels, as there are no alternative users of the incinerator.

IE21. Swansway HA has adopted the historical cost model for measurement subsequent to recognition.

Analysis

IE22. It is estimated that a smaller incinerator providing 5%-10% of the current capacity can be acquired for CU320,000, including necessary site-specific adaptations. There is a very limited market for incinerators of the type operated by Swansway HA and current operational value, using the cost approach, is therefore the determinant of recoverable service amount. There is no need to estimate fair value less costs to sell.

		CU000
A	Construction cost, 2017	600
	Accumulated depreciation (A × 6 ÷ 30)	120
B	Carrying amount, 2023	480
C	Recoverable Service Amount (Current Operational Value of incinerator with 5%-10% of current incinerator's capacity)	320
D	Impairment loss (B-C)	160

IE23. The carrying amount of the incinerator is reduced to CU320,000. The impairment loss of CU160,000 is taken to surplus/deficit.

Indication of impairment (b): Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates—Reduction in demand for educational support services following legislative change.

Fact Pattern

IE24. In 2004, Mullhall School District (SD) acquired an office building with four floors in a central city location in which to house educational support services for CU700,000. The building had an estimated useful life of 40 years. In 2020 there was a legislative change giving schools more budget flexibility and greater discretion over the procurement of these services. Many sought alternative provision leading to a decline in demand for services provided by Mullhal SD.

IE25. By 2023 demand for education support services was about 75% of the 2020 level. Mullhall SD does not foresee demand returning to previous levels. Mullhal SD estimates that the education support services, after the demand reduction, can be provided in a building with about 30% of the floor area of the current building. Mullhal SD has looked into the possibility of leasing out three floors of the building but decides that because the building needs to be secure for students and their families, this is not feasible. Mullhal SD therefore treats the building as a single unit of account.

IE26. Mullhall SD has adopted the current value model for measurement subsequent to recognition. Mullhall SD has a rolling program of revaluations. The next revaluation of the building is scheduled for 2025. Because of the indication of impairment, the revaluation is brought forward to 2023, so that the building can be tested for impairment.

Analysis

IE27. Because the office building is non-cash-generating and held for operational capacity it is measured at current operational value. The carrying amount in 2023 is CU500,000. No decision has been made to sell the building, so it is not in scope of IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations.

IE28. There are no restrictions on the building's use. There is a buoyant market for commercial property with average sale prices having increased by 20% in the 2020-2023 period. Mullhal SD therefore considers that fair value less costs to sell is the relevant metric for determining recoverable service amount. There is no need to re-determine current operational value. Fair value less costs to sell is determined as CU2,000,000.

		CU000
A	Carrying Amount, 2023	500
B	Recoverable Service Amount (Fair Value less Costs to Sell)	2,000
C	Impairment Loss (B>A)	0

IE29. There is no impairment loss because recoverable service amount exceeds carrying amount. Although the asset's service potential has diminished, the resources embodied in the asset can be recovered through sale in an orderly market, which is legally permitted and feasible. Therefore, Mullhal SD continues to carry the building on its statement of financial position at CU500,000.

Indication of Impairment (b): Significant long-term changes with adverse effects on the entity have taken place during the reporting period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates—Occupancy changes to residential home for children due to regulatory change.

Fact Pattern

IE30. Blackwood City Council (CC) acquired a residential home for children in 2003. The residential home had an estimated useful life of 50 years. Until 2023 the home had a capacity of 100 children. In 2023, revised government regulations imposed restrictions on occupancy by residential home. As a result, the capacity was reduced to 50 children. Covenants restrict the use of the building to the provision of social services.

IE31. Blackwood CC has adopted the current value model for measurement subsequent to recognition. The carrying amount prior to the impairment indication in 2023 is CU1,800,000. Blackwood CC has a rolling program of revaluations. The next valuation of the residential home is scheduled for 2026. Because of the indication of impairment, the valuation is brought forward to 2023. A valuer's report indicates that Blackwood CC could acquire a residential building of similar age and location suitable for 50 children for CU1,000,000. Adaptations in order to meet regulatory requirements will cost a further CU200,000 making a total cost of CU1,200,000.

Analysis

IE32. Blackwood CC determines that, because of the covenants restricting usage of the building and the site, current operational value using the cost approach is the relevant measurement basis for determining recoverable service amount. Therefore, there is no need to determine fair value less costs to sell.

		CU000
A	Carrying Amount, 2023	1,800
B	Recoverable Service Amount (Current Operational Value after impairment testing)	1,200
C	Impairment Loss B-A	600

IE33. The carrying amount of the residential home in the statement of financial position is reduced to CU1,200,000. There is an impairment loss of CU600,000. Part of this impairment loss is debited to the revaluation reserve up to the level of previous revaluation gains. The remainder is debited to surplus/deficit.

Indication of impairment (c): Physical Damage—Bridge Damaged as a Result of Ship Colliding with Fabric of Infrastructure

Fact Pattern

IE34. Creech City Council constructed a road bridge spanning the Grand River in 1998. The construction cost of CU20,000,000 was largely financed by grants from the state and national governments. The bridge had an estimated useful life of fifty years. Creech City Council has adopted the historical cost model for measurement subsequent to recognition.

IE35. In 2023 three lanes out of four were closed due to structural damage after a ship collided with one of the supporting pillars. Creech City Council expects to repair the bridge in the upcoming year, and has allowed one lane of the bridge to remain open for use at the reporting date.

Analysis

IE36. At year end the recoverable service amount is estimated to be CU 5,000,000. It is not possible to sell the bridge so fair value less costs to sell is zero.

		CU000
A	Construction cost, 1998	20,000
	Accumulated depreciation, 2023 (A × 25 ÷ 50)	10,000
B	Carrying amount, 2023	10,000
C	Recoverable Service Amount (Current Operational Value after impairment testing)	5,000
D	Impairment loss (B-C)	5,000

IE37. There is an impairment loss of CU5,000. This is taken to surplus/deficit. The impairment loss may be fully or partially reversed in a subsequent measurement period when Creech City Council repairs the bridge. The effect of such an event should be recognized in the reporting period when the work takes place.

Indication of impairment (d): Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used—School Used as Warehouse

Fact Pattern

IE38. In 2017 Lunden School District (SD) constructed an elementary school at a cost of CU1,000.000. The estimated useful life of the school building was fifty years. In 2023, the school closed because enrolments in the district declined unexpectedly due to a population decrease caused by the bankruptcy of the major employer in the area. Following closure, the school was converted for use as a storage warehouse for educational materials. Restrictions prevent the sale of the building and site for non-educational purposes. Lunden SD has adopted the historical cost model for measurement subsequent to recognition. The carrying amount of the building in 2023 prior to conversion was CU880,000.

Analysis

IE39. Lunden SD does not expect enrolments to increase in the future and therefore does not anticipate the building reopening as a school. The estimated cost of a warehouse with the same storage capacity as the school

using the cost approach is CU300,000. The warehouse has the same remaining useful life as the school. Because the building can only be used for educational purposes fair value less costs to sell is lower than current operational value.

		CU000
A	Acquisition cost, 2017	1,000
	Accumulated depreciation, 2023 (A × 6 ÷ 50)	120
B	Carrying amount, 2023	880
C	Recoverable Service Amount (Current Operational Value of warehouse with same storage capacity as school)	300
D	(d) Impairment loss (B-C)	580

IE40. There is an impairment loss of CU580,000. This is taken to surplus/deficit. The carrying amount of the building is reduced to CU300,000.

Indication of Impairment (e): A decision to halt the construction of the asset before it is complete or in a usable condition—Halt to capital project to improve and integrate stations in mass transit system

Fact Pattern

IE41. The Department of Transport (DoT) of Highside State Government operates the mass transit system for Metroland City, which includes an overground commuter railway and a subway network. There are two separate stations called ‘Altgate’ in Metroland City — for the overground railway and the subway. The two stations are not linked and have separate entrances 500 meters apart.

IE42. As the first phase of a broader longer-term program to integrate public transport in 2022, the DoT initiated a capital project to integrate the two stations so that passengers can transfer between overground and subway networks without changing stations. The project includes a new concourse area, escalators between the two levels, and a new air-conditioning system. The construction work in this phase is planned to take five years.

IE43. Highside State Government has adopted the historical cost model for measurement subsequent to recognition. As at 2023, assets of CU1,000,000 had been recognized for this project. In 2023 due to a sudden and severe financial crisis the program has to be terminated. At the reporting date there is no intention of the program resuming.

Analysis

IE44. As there is no intention to resume the construction works it is inappropriate to treat the program as deferred. Any resale value of the components of the construction works is estimated to be immaterial, so fair value less costs to sell is not relevant. The CU1,000,000 assets are written off to surplus/deficit.

Impairment Indicator (f): Evidence from Internal Reporting — Service performance of an asset is, or is expected to be, significantly worse than expected—Printer producing less copies than originally estimated

Fact Pattern

IE45. In 2019, Readam Education Department (ED) purchased a new printing machine in order to produce books for elementary school pupils. Readam ED has adopted the current value model for measurement subsequent to recognition. Readam ED has a rolling program of revaluations. The next revaluation is scheduled for 2024. This is brought forward because of the impairment indication. The carrying amount prior to the impairment indication was CU24,000.

IE46. At the time of purchase, Readam ED estimated that 40,000 copies of books would be printed annually over the estimated 10-year useful life of the machine. In 2023 an internal review, identified that an automated feature of the machine does not operate as expected, resulting in a projected 25 percent reduction in the machine's annual output level over the remaining five years of the useful life of the asset (30,000 copies annually). Repairing the printing machine is not feasible, because the parts are no longer available. The resale value is therefore negligible.

Analysis

IE47. Recoverable service amount is estimated by reference to the cost of a printing machine with the same output as the impaired asset (30.000 annual copies), rather than the cost of replacing the original asset (40,000 annual copies). Readam ED obtains quotes for a machine with an output of 30,000 annual copies. The cheapest quote for a printing machine that does not require adaptation is CU15,000.

		CU000
A	Carrying Amount in 2023	24
B	Recoverable Service Amount (Current Operational Value of printing machine with capacity to produce 30,000 annual copies)	15
C	Impairment Loss (A-B)	9

IE48. The carrying amount of the printer is reduced to CU15,000. There is an impairment loss of CU9,000. This is taken to surplus/deficit as there has not been any surplus arising from a prior revaluation.

COMPARISON WITH IAS 36 (2004)

IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.
- The recoverable service amount in IPSAS 21 is the highest of fair value less cost to sell and current operational value, while in IAS 36 the recoverable amount is the highest of fair value less cost to sell and value in use.
- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.
- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRS. These have not been excluded from IPSAS 21 because there are not equivalent IPSAS. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, and (d) intangible assets arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4, *Insurance Contracts*.
- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 deals with corporate assets in the same manner as other non-cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.
- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue," "recoverable service amount", and "statement of financial performance," in IPSAS 21. The equivalent terms in IAS 36 are "income," "recoverable amount," and "income statement."

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IPSAS 22, *DISCLOSURE OF FINANCIAL INFORMATION ABOUT THE GENERAL GOVERNMENT SECTOR*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 22, *Disclosure of Financial Information about the General Government Sector* was issued in December 2006.

Since then, IPSAS 22 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 46, *Measurement* (issued May 2023)
- *Improvements to IPSAS 2021* (issued January 2022)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 22

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Amended	*The Applicability of IPSAS* April 2016
5	Amended	*Improvements to IPSAS* January 2022
13	Amended	*Improvements to IPSAS* April 2016
16	Deleted	*The Applicability of IPSAS* April 2016
18	Amended	*Improvements to IPSAS* January 2022
22	Amended	*The Applicability of IPSAS* April 2016
24	Amended	IPSAS 35 January 2015
26	Amended	IPSAS 35 January 2015
27	Amended	IPSAS 35 January 2015
28	Amended	*Improvements to IPSAS* January 2022
29	Amended	IPSAS 35 January 2015
30	Amended	IPSAS 35 January 2015

Paragraph Affected	How Affected	Affected By
32	Amended	IPSAS 46 May 2023
37	Amended	*Improvements to IPSAS* October 2018
41	Amended	IPSAS 35 January 2015
47A	New	IPSAS 33 January 2015
47B	New	IPSAS 35 January 2015
47C	New	*Improvements to IPSAS* April 2016
47D	New	*The Applicability of IPSAS* April 2016
47E	New	*Improvements to IPSAS* October 2018
47F	New	*Improvements to IPSAS* January 2022
47G	New	IPSAS 46 May 2023
48	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025

IPSAS 22, *DISCLOSURE OF FINANCIAL INFORMATION ABOUT THE GENERAL GOVERNMENT SECTOR*

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International Public Sector Accounting Standard 22, *Disclosure of Financial Information about the General Government Sector*, is set out in paragraphs 1–48. All the paragraphs have equal authority. IPSAS 22 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe disclosure requirements for governments that elect to present information about the general government sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market activities of the government, and between financial statements and statistical bases of financial reporting.

Scope

2. **A government that prepares and presents consolidated financial statements under the accrual basis of accounting and elects to disclose financial information about the general government sector shall do so in accordance with the requirements of this Standard.**

3. Governments raise funds from taxes, transfers, and a range of nonmarket and market activities to fund their service delivery activities. They operate through a variety of entities to provide goods and services to their constituents. Some entities rely primarily on appropriations or allocations from taxes or other government revenues to fund their service delivery activities, but may also undertake additional revenue-generating activities, including commercial activities in some cases. Other entities may generate their funds primarily or substantially from commercial activities.

4. Financial statements for a government prepared in accordance with IPSAS provide an overview of (a) the assets controlled and liabilities incurred by the government, (b) the cost of services provided by the government, and (c) the taxation and other revenues generated to fund the provision of those services. Financial statements for a government, which delivers services through controlled entities, whether primarily dependent on the government budget to fund their activities or not, are consolidated financial statements.

5. In some jurisdictions, financial statements and budgets for the government, or sectors thereof, may also be issued in accordance with statistical bases of financial reporting. These bases reflect requirements consistent with, and derived from, the *System of National Accounts*, 2008 (2008 SNA) prepared by the United Nations and other international organizations. These statistical bases of financial reporting focus on the provision of financial information about the GGS. The GGS comprises those non-profit entities that undertake nonmarket activities and rely primarily on appropriations or allocations from the government budget to fund their service delivery activities (hereafter referred to as nonmarket entities or activities). The statistical bases of financial reporting may also provide information about (a) the corporations sector of government that primarily engages in market activities (usually characterized as the public financial corporations (PFC) sector and the public nonfinancial corporations (PNFC) sector), and (b) the public sector as a whole. The major features of the PFC and PNFC sectors are outlined at paragraphs 19 and 20 of this Standard.

6. Financial statements consolidate only controlled entities. Such a limitation is not made in statistical bases of financial reporting. In some jurisdictions, a national government controls state/provincial and local government entities, and therefore its financial statements consolidate those levels of government, but in other jurisdictions they do not. In all jurisdictions, under statistical bases of financial reporting, the GGS of all levels of government are combined, so in some jurisdictions the GGS will include units that financial statements do not consolidate. This Standard disaggregates the consolidated financial statements of a government. Therefore, it prohibits the presentation, as part of the GGS, of any entity not consolidated within a government's financial statements.

Segment Reporting

7. IPSAS 18, *Segment Reporting*, requires the disclosure of certain information about the service delivery activities of the entity and the resources allocated to support those activities for accountability and decision-making purposes. Unlike the sectors reported under statistical bases of financial reporting, segments reported in accordance with IPSAS 18 are not based on a distinction between market and nonmarket activities.

8. The disclosure of information about the GGS does not replace the need to make disclosures about segments in accordance with IPSAS 18. This is because information about the GGS alone will not provide sufficient detail to enable users to evaluate the entity's past performance in achieving major service delivery objectives, when those objectives are achieved through non-GGS entities. For example, identifying the GGS as a segment will not provide information about a government's performance in achieving its telecommunication, healthcare or educational objectives, where government corporations or quasi-corporations deliver services related to those objectives. Because the GGS is only a subset of the government as a whole, important information would be omitted if a government did not present segment information in respect of its consolidated financial statements.

Statistical Bases of Financial Reporting

9. The objectives of financial statements prepared in accordance with IPSAS and those prepared in accordance with statistical bases of financial reporting differ in some respects. The objectives of financial statements prepared in accordance with IPSAS are to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it and which it controls. The purpose of financial statements prepared in accordance with statistical bases of financial reporting is to provide information suitable for analyzing and evaluating fiscal policy, especially the performance of the GGS and the broader public sector of any country. In addition, although statistical bases of financial reporting may be described in accounting terms, they might differ in important ways from the underlying financial accounting system from which most of the statistics about government finances will be derived. However, the IPSAS and the statistical bases of financial reporting also have many similarities in the treatment of transactions and events. For example, they adopt an accrual basis of accounting, deal with similar transactions and events, and in some respects require a similar type of report structure.

10. In some jurisdictions, the disclosure of appropriate information about the GGS in financial statements can support and enhance the decision making of, and accountability to, users of those statements. For example, disclosure of information about the GGS is consistent with enhanced transparency of financial reporting, and will assist users of the financial statements to better understand:

    (a) The resources allocated to support the service delivery activities by the GGS, and the government's financial performance in delivering those services; and

    (b) The relationship between the GGS and the corporations sectors, and the impact each has on overall financial performance.

11. In those jurisdictions where financial statements for the government are prepared in accordance with statistical bases of financial reporting and widely published, the disclosure of information about the GGS in financial statements will form a useful link between the financial statements prepared in accordance with IPSAS and those prepared in accordance with statistical bases of financial reporting. This will assist users in reconciling information presented in financial statements to information presented in statistical reports. IPSAS 24, *Presentation of Budget Information in Financial Statements*, requires that financial statements include a comparison of budget and actual amounts on a basis consistent with that adopted for the budget. Where government budgets are prepared for the GGS rather than the government as a whole, financial

information about the GGS disclosed in accordance with this Standard will be relevant to the comparisons required by that IPSAS.

Accounting Policies

12. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. The compilation and presentation of GGS data that satisfy the qualitative characteristics of information provided in financial statements and related audit requirements may add significantly to the workload of preparers and auditors in many jurisdictions, and may increase the complexity of the financial statements. This will be particularly so in jurisdictions where financial statements based on, or incorporating, GGS disclosures in accordance with statistical bases of financial reporting are not currently prepared. In addition, in some jurisdictions, users may not be dependent on financial statements for information about the GGS. In those jurisdictions, the costs involved in preparing and presenting GGS disclosures as part of the financial statements may be greater than their benefit. Therefore, this Standard allows, but does not require, the disclosure of information about the GGS. Whether or not disclosure of information about the GGS will be made in financial statements will be determined by the government or other appropriate authority in each jurisdiction.

13. This standard requires that when disclosures about the GGS are made in financial statements, those disclosures are to be made in accordance with the requirements prescribed in this Standard. This will ensure that an appropriate representation of the GGS is made in the financial statements, and that disclosures about the GGS satisfy the qualitative characteristics of financial information, which are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

14. IPSAS generally apply to all public sector entities. However, it is only possible to disclose a meaningful representation of the GGS for a government – not its individual controlled entities. Therefore, this Standard specifies requirements for application only by governments that prepare consolidated financial statements under the accrual basis of accounting as prescribed by IPSAS. These governments may include national, state/provincial, and local governments.

Definitions

15. **The following term is used in this Standard with the meaning specified:**

The General Government Sector comprises all organizational entities of the general government as defined in statistical bases of financial reporting.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Government Business Enterprises (GBEs)

16. [Deleted]

General Government Sector

17. Under statistical bases of financial reporting, the public sector comprises the GGS, PFC, and PNFC sector. Additional subgroups within these sectors may be identified for statistical analytical purposes.

18. The GGS is defined in the 2008 SNA as consisting of (a) all resident central, state, and local government units, (b) social security funds at each level of government, and (c) nonmarket non-profit institutions controlled by government units. Under statistical bases of financial reporting, the GGS encompasses the central operations of government, and typically includes all those resident nonmarket non-profit entities that have their operations funded primarily by the government and government entities. As such, the financing of these

entities is sourced primarily from appropriation or allocation of the government's taxes, dividends from government corporations, other revenues, and borrowings. The GGS typically includes entities such as government departments, law courts, public educational institutions, public health care units, and other government agencies. The GGS does not include PFCs or PNFCs. Disclosure of GGS information will be made in those jurisdictions where strengthening the link between IPSAS and statistical bases of financial reporting is considered useful and relevant to users of financial statements. Governments electing to make GGS disclosures will therefore need to ensure that the information about the GGS included in the financial statements is consistent with the definition of GGS, and any interpretations thereof, adopted for statistical bases of financial reporting in their jurisdiction.

Public Financial Corporations Sector

19. The PFC sector comprises resident government-controlled financial corporations, quasi-corporations, and non-profit institutions that primarily engage in financial intermediation and the provision of financial services for the market. Included within this sector are government-controlled banks, including central banks, and other government financial institutions that operate on a market basis.

Public Non-Financial Corporations Sector

20. The PNFC sector comprises resident government-controlled non-financial corporations, quasi-corporations, and non-profit institutions that produce goods or nonfinancial services for the market. Included within this sector are entities such as publicly owned utilities and other entities that trade in goods and services.

21. Statistical bases of financial reporting define:

    (a) Corporations as legal entities created for the purpose of producing goods and services for the market;

    (b) Quasi-corporations as enterprises that are not incorporated or otherwise legally established, but function as if they were corporations; and

    (c) Nonprofit institutions as legal or other entities that produce or distribute goods and services, but which do not generate financial gain for their controlling entity.

22. Commercial public sector entities have similar characteristics to a public corporation or public quasi-corporation, as defined in statistical bases of financial reporting. However, there may not be an identical mapping of these public sector entities and the PFC and PNFC sectors. For example, a commercial public sector entity that is not resident would not be classified as a PFC or a PNFC.

Accounting Policies

23. **Financial information about the GGS shall be disclosed in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government, except as required by paragraphs 24 and 25.**

24. **In presenting financial information about the GGS, entities shall not apply the requirements of IPSAS 35, *Consolidated Financial Statements*, in respect of entities in the PFCs and public NFCS sectors.**

25. **The GGS shall recognize its investment in the PFC and public NFCS sectors as an asset, and shall account for that asset at the carrying amount of the net assets of its investees.**

26. This Standard reflects the view that the consolidated financial statements of a government that elects to disclose information about the GGS are to be disaggregated to present the GGS as one sector of the government reporting entity. Consistent with this view, this Standard requires that the same definitions and the same recognition, measurement, and presentation requirements that are applied when preparing the consolidated financial statements are also applied to the GGS disclosures, with one exception. That

exception is that the requirements of IPSAS 35 are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.

27. IPSAS 35 requires controlling entities to prepare financial statements that consolidate controlled entities on a line-by-line basis. IPSAS 35 also contains (a) a detailed discussion of the concept of control as it applies in the public sector, and (b) guidance on determining whether control exists for financial reporting purposes. Consistent with the requirements of IPSAS 35, entities in the PFC and PNFC sectors, as defined in statistical bases of financial reporting, that are controlled entities of the government will be consolidated in the government's financial statements.

28. Financial statements prepared consistent with statistical bases of financial reporting portray the impact of the GGS on the public sector as a whole and, in the context of the 2008 SNA, on a national economy. Consistent with that focus, statistical bases of financial reporting require the GGS financial statements to present public sector entities outside that sector as investments in other sectors. In addition, under statistical bases of financial reporting, transactions of the GGS with entities in other sectors are not eliminated from the statement of government operations or a similar statement.

29. To apply the IPSAS 35 requirements for consolidation to the GGS would result in the re-presentation of the consolidated financial statements of a government, rather than the GGS financial statements.

30. Therefore, in disclosing financial information about the GGS, balances and transactions between entities within the GGS are eliminated in accordance with IPSAS 35. However, balances and transactions between entities in the GGS and entities in other sectors are not eliminated.

31. This Standard requires the GGS sector to recognize its investment in entities in the PFC or PNFC sectors at the carrying amount of the net assets of those entities. This will ensure that the GGS disclosures reflect a disaggregation of financial information presented in the consolidated financial statements of the government of which it is a part. Consistent with the GGS being a disaggregation of the consolidated financial statements of a government, changes in the carrying amount of the net assets of those entities will be recognized in the same manner as they are recognized in the consolidated financial statements of a government.

32. Statistical bases of reporting require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSAS include different measurement requirements, and require or permit an historical cost model and current value model for certain classes of assets and liabilities. They do not require all assets and liabilities to be revalued to market value. Therefore, the measurement of assets and liabilities in the GGS disclosures in the financial statements, including the investment in the PFC and PNFC sectors, may differ from the measurement basis adopted in statistical bases of reporting.

Further Disaggregation

33. In some jurisdictions, national governments may control provincial and/or local governments and, consequently, the national government's financial statements will consolidate different levels of government. If financial statements consolidate different levels of government, further disaggregation of the consolidated financial statements may occur in accordance with the requirements of this Standard to separately disclose information about the GGS at each level of government.

34. This further disaggregation is not required by this Standard. However, it may be presented to further assist users to better understand the relationship between the GGS activities of each level of government consolidated in the financial statements, and the relationship between financial statements and the statistical bases of financial reporting in those jurisdictions.

Disclosures

35. **Disclosures made in respect of the GGS shall include at least the following:**

(a) **Assets by major class, showing separately the investment in other sectors;**

(b) **Liabilities by major class;**

(c) **Net assets/equity;**

(d) **Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;**

(e) **Revenue by major class;**

(f) **Expenses by major class;**

(g) **Surplus or deficit;**

(h) **Cash flows from operating activities by major class;**

(i) **Cash flows from investing activities; and**

(j) **Cash flows from financing activities.**

The manner of presentation of the GGS disclosures shall be no more prominent than the government's financial statements prepared in accordance with IPSAS.

36. IPSAS 1 identifies a complete set of financial statements (under the accrual basis) as a statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement, and accounting policies and notes to the financial statements.

37. This Standard requires disclosure of the major classes of assets, liabilities, revenues, expenses, and cash flows reflected in the financial statements. This Standard does not specify the manner in which the GGS disclosures shall be made. Governments electing to make GGS disclosures in accordance with this Standard may make such disclosures by way of (a) note disclosure, (b) separate columns in the financial statements, or (c) otherwise, as considered appropriate in their jurisdiction. However, the manner of presentation of the GGS disclosures will be no more prominent than the consolidated financial statements prepared in accordance with IPSAS.

38. To assist users to understand the relationship of financial information presented for the GGS to a government's operations, statistical bases of financial reporting require total government expenses to be disaggregated and disclosed by class, based on either the economic nature of the expenses or by the Classification of Functions of Government (COFOG). This Standard does not require nor prohibit entities disclosing GGS information from presenting disaggregated GGS information classified by economic nature or consistent with the COFOG classification basis. In some jurisdictions, the COFOG classifications adopted in respect of the GGS disclosures may be similar to the classifications adopted in accordance with IPSAS 18.

39. Entities will also make any additional disclosures that are necessary for users to understand the nature of the information presented.

40. **Entities preparing GGS disclosures shall disclose the significant controlled entities that are included in the GGS, and any changes in those entities from the prior period, together with an explanation of the reasons why any such entity that was previously included in the GGS is no longer included.**

41. This Standard requires entities electing to disclose information about the GGS to disclose a list of the significant controlled entities that are included in the GGS. IPSAS 35 requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidated financial statements. Disclosure of which of the entities consolidated in the financial statements in accordance with IPSAS 35 are included in the GGS will assist users in developing an understanding of the relationship

between information about the government and its GGS, and in better understanding the GGS information itself.

42. Similarly, disclosure of changes in the controlled entities included in the GGS will enable users to monitor the relationship between the consolidated financial statements and the GGS information over time.

Reconciliation to the Consolidated Financial Statements

43. **The GGS disclosures shall be reconciled to the consolidated financial statements of the government, showing separately the amount of the adjustment to each equivalent item in those financial statements.**

44. This Standard requires the amounts disclosed in respect of the GGS to be reconciled to their equivalent amounts in the consolidated financial statements of the government. Entities will present separately the adjustment in the amount of the asset investment in PFC and PNFC sectors determined in accordance with paragraph 23, and adjustments to each of the items disclosed separately in accordance with paragraph 35. In addition, entities may, but are not required to, disclose separately the amount of the adjustment to each item attributable to the PFC and the PNFC sectors. This reconciliation will enable the government to better discharge its accountability obligations by demonstrating the relationship between the amounts of each item for the GGS with the total amount of that item for the government.

Reconciliation to Statistical Bases of Financial Reporting

45. Statistical bases of financial reporting and IPSAS have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, in addition to differences in the measurement bases for assets and liabilities outlined in paragraph 32 above, statistical bases of financial reporting treat dividends as expenses, while IPSAS treat them as distributions. Statistical bases of financial reporting also make a distinction between transactions and other economic flows for presentation of financial information that is not currently reflected in the consolidated financial statements, and focus on particular measures relevant for analysis of fiscal policy such as net lending/borrowing and cash surplus/deficit.

46. This Standard does not require a reconciliation of the GGS disclosures in the consolidated financial statements with the GGS disclosures under statistical bases of financial reporting. This is because of concerns about the practicability, and the costs and benefits, of such a requirement in all jurisdictions. However, the inclusion of such a reconciliation by way of note disclosure is not precluded.

Effective Date

47. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

47A. **Paragraph 48 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

47B. **IPSAS 35, *Consolidated Financial Statements* issued in January 2015, amended paragraphs 24, 26, 27, 29, 30, and 41. An entity shall apply those amendments when it applies IPSAS 35.**

47C. **Paragraph 13 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

47D. **Paragraph 16 was deleted and paragraphs 3 and 22 were amended and by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

47E. **Paragraph 37 was amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

47F. **Paragraphs 5, 18, and 28 were amended by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted.**

47G. **Paragraph 32 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

48. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 22.

Introduction

BC1. When this Standard was issued, it referred to the *System of National Accounts 1993* (SNA 1993) (and updates), *Government Finance Statistics Manual* 2001 (GFSM) 2001, and the *European System of Accounts 1995* (ESA 1995), all required governments to publish financial information about the GGS. For statistical purposes, the GGS comprises government-controlled entities primarily engaged in nonmarket activities. The GGS is sometimes described as comprising those entities that fulfill the core functions of government as their primary activity. The GGS does not include public corporations, even when all the equity of such corporations is owned by the government or government entities. In developing *Improvements to IPSAS*, 2021, the IPSASB noted that IPSAS 22 referred to an older edition of the System of National Accounts (SNA). Therefore, the IPSASB amended the Standard to refer to the latest edition of the SNA. Paragraph BC17 provides the rationale for including these amendments to IPSAS 22 through *Improvements to IPSAS*, 2021.

BC2. Current IPSAS do not require entities to disclose information about the GGS in their financial statements. IPSAS require entities to prepare financial statements that include information about all the resources controlled by the reporting entity, and prescribe rules for consolidation of all controlled entities. IPSAS 18, *Segment Reporting*, also requires entities to identify segments and present information about those segments.

BC3. Some governments prepare, present, and widely publish both financial statements and information about the financial characteristics and performance of the public sector prepared in accordance with statistical bases of reporting.

BC4. The IPSASB supports the convergence of IPSAS with statistical bases of reporting where appropriate. The statistical community encouraged the IPSASB to develop an IPSAS addressing the presentation of GGS information as part of a government's consolidated financial statements as a means of facilitating convergence.

BC5. The disclosure of GGS information can provide useful information to users of financial statements, particularly in those jurisdictions in which national or other governments publish both (a) financial statements in accordance with IPSAS, and (b) financial information in accordance with statistical bases of financial reporting. The IPSASB is also of the view that the disclosure of such information can assist users in better understanding the relationship between the market and nonmarket activities of the government. However, the IPSASB is not persuaded that the benefits of making such disclosures may be significantly greater than their costs in those jurisdictions where financial statements prepared in accordance with statistical bases of financial reporting are not routinely prepared and made publicly available. Consequently, these disclosures are not mandatory.

BC6. This Standard specifies requirements for application only by governments. This is because it is only possible to disclose a meaningful representation of the GGS for a government as a whole. In some jurisdictions, national governments may control provincial and/or local governments. Where this occurs, the financial statements may be further disaggregated to separately disclose information about the GGS for each level of government. Such disclosure is likely to assist users to better understand the relationship between the GGS activities of each level of government. However, in some jurisdictions, such disclosures may impose additional pressure on the accounting system and those responsible for data collection and aggregation, and it is not clear that the benefits of such disclosure for users of the financial statements will exceed their cost. Therefore, this Standard does not require entities that elect to disclose information about the GGS to also

disclose separately information about the GGS of each level of government consolidated in the financial statements. However, such disclosures are not precluded.

Consolidation and Disaggregation

BC7. Statistical bases of financial reporting and IPSAS have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, statistical bases of financial reporting:

(a) Require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSAS include different measurement requirements, and require or permit an historical cost model and current value model for certain classes of assets and liabilities;

(b) Treat dividends as expenses, while IPSAS treat them as distributions;

(c) Make a distinction between transactions and other economic flows for presentation of financial information. IPSAS do not currently make a similar distinction; and

(d) Focus on the presentation of financial information about the GGS and the other sectors of the public sector as separate components and, in this context, adopt the same rules for recognition and measurement as are adopted for presentation of the rest of the economy, to ensure consistency of the macro-economic totals. Under statistical bases of financial reporting, financial statements prepared for the GGS do not include consolidation of PNFCs, being government-controlled entities that trade in goods and services, and PFCs such as banks. The IPSAS focus on consolidated financial statements which present financial information about all the assets, liabilities, revenues, expenses, and cash flows controlled by the entity.

BC8. This Standard requires that the disclosure of information about the GGS be a disaggregation of a government's consolidated financial statements. This is a similar perspective that is adopted for disclosure of segment information in accordance with IPSAS 18. Accordingly, the same accounting policies as those adopted for the consolidated financial statements are to be adopted in making GGS disclosures, with one exception as noted below.

BC9. When GGS disclosures are made in financial statements, the requirements of IPSAS 35 should not be applied in respect of PFCs and PNFCs. This is because the application of IPSAS 35 to the PFC and PNFC sectors would result in the re-presentation of a government's consolidated financial statements rather than the GGS financial statements. This would defeat the purpose of the disclosure of GGS information as a bridge between financial statements prepared in accordance with IPSAS and those prepared in accordance with statistical bases of financial reporting.

Segment Reporting

BC10. IPSAS 18 requires the separate disclosure of certain information about significant activities or groups of activities for the evaluation of the performance of the entity in achieving its objectives, and for decision-making purposes. IPSAS 18 does not distinguish between exchange and non-exchange transactions and events, or market and nonmarket activity of government. Rather, its focus is on the disclosure of the revenues, expenses, assets, and liabilities associated with the delivery of major services or groups of services – whether these services are delivered by the GGS of the government or by PFCs and PNFCs. The objective of segment reporting is not achieved by the disclosure of information about the GGS. Accordingly, a government electing to disclose information about the GGS needs also to disclose information about segments.

BC11. Statistical bases of financial reporting present information about expenses or expenditure of the government, classified either by economic nature or the COFOG. Either of these classification bases may be applied to

disclose additional information about the GGS. In some cases a COFOG classification may be adopted to disclose segment information in a government's consolidated financial statements.

Reconciliation

BC12. The information disclosed about the GGS in accordance with the requirements of this Standard may differ in content and form from that presented under statistical bases of financial reporting.

BC13. The IPSASB considered whether those governments that elect to disclose information about the GGS in accordance with this Standard should be required to disclose a reconciliation of (a) the GGS disclosures in the financial statements, and (b) the GGS disclosures under statistical bases of financial reporting. The IPSASB was concerned that such a requirement may impose significant costs on the preparer, and that those costs may be greater than the benefits in some jurisdictions. This would then discourage governments that might otherwise elect to make such disclosures. Of particular concern to the IPSASB in this respect was, for example, whether the:

(a) Timing of compilation of financial statements and statistical information is such that a reconciliation could be completed within the timeframe necessary for the financial statements to be audited and signed off or authorized for issue in accordance with legislative requirements and/or requirements of the IPSAS;

(b) Inclusion of such a requirement would trigger an audit of the reconciliation, and may also trigger an audit of the statistical reports themselves; and

(c) Entity may be required to remeasure and reclassify assets, liabilities, revenues, and expenses in accordance with the requirements of the statistical bases of financial reporting, and whether this would discourage disclosure of the GGS information.

BC14. On balance, the IPSASB concluded that such a reconciliation should not be required at this stage. However, a reconciliation of the GGS disclosures, presented in accordance with the requirements of this Standard to the equivalent items in the financial statements of the government prepared in accordance with the requirements of IPSAS, (a) is consistent with enhanced transparency, (b) is not onerous, and (c) would be useful to users. The disclosure of a reconciliation of the GGS disclosures presented in accordance with the requirements of this Standard and the GGS disclosures presented under statistical bases of financial reporting is not prohibited.

Revision of IPSAS 22 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC15. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 22 as a result of *Improvements to IPSAS, 2018*

BC16. Paragraph 37 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Consequently the IPSASB agreed to

standardize the terminology and to replace the term “primary financial statements” with the term “financial statements” wherever this term occurred.

Revision of IPSAS 22 as a result of *Improvements to IPSAS, 2021*

BC17. Stakeholders noted that IPSAS 22 still referred to the 1993 edition of the SNA, instead of its most recent edition, the 2008 SNA. Therefore, the IPSASB agreed to amend paragraphs 5, 18, 28 and BC1 to refer to the latest edition of the SNA, that is, the 2008 SNA.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 22.

Illustrative Financial Statement Structure

Government A—Extract Of Financial Statements

Extract from the Notes to the Financial Statements

Note: General Government Sector (GGS) Disclosures

The following disclosures are made for the general government sector (GGS). They reflect the accounting policies adopted in the consolidated financial statements, except that the consolidation requirements have been varied in respect of the public financial corporations (PFCs) sector and public nonfinancial corporations (PNFCs) sector. In accordance with the requirements of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, PFCs and PNFCs are not consolidated in the GGS disclosures, but are recognized as investments of the GGS. The investments in PFCs and PNFCs are presented as a single line item, measured at the carrying amount of the net assets of the investees.

The GGS comprises all central government ministries and other entities controlled by the government that are primarily engaged in nonmarket activities. These entities are:

Ministry of x

y

z.

During the reporting period, activities related to the postal service, previously undertaken by the ministry of communications, have been reconstituted on a commercial basis and are no longer included in the financial information presented for the GGS.

Statement of Financial Position for the GGS—As At December 31, 20X2

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
ASSETS								
Current assets								
Cash and cash equivalents	X	X	X	X	(X)	(X)	X	X
Receivables	X	X	X	X	(X)	(X)	X	X
Inventories	X	X	X	X			X	X
Prepayments	X	X	X	X	(X)	(X)	X	X
Investment	X	X	X	X			X	X
Other current assets	X	X	X	X			X	X
	X	X	X	X	(X)	(X)	X	X
Non-current assets								
Receivables	X	X	X	X	(X)	(X)	X	X
Investments	X	X	X	X			X	X
Investment in other sectors	X	X			(X)	(X)		
Other financial assets	X	X	X	X	(X)	(X)	X	X
Infrastructure, plant, and equipment	X	X	X	X			X	X
Land and buildings	X	X	X	X			X	X
Intangible assets	X	X	X	X			X	X
Other non-financial assets	X	X	X	X			X	X
	X	X	X	X	(X)	(X)	X	X
TOTAL ASSETS	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**
LIABILITIES								
Current liabilities								
Payables	X	X	X	X	(X)	(X)	X	X
Short-term borrowings	X	X	X	X			X	X
Current portion of borrowings	X	X	X	X			X	X
Provisions	X	X	X	X			X	X
Employee benefits	X	X	X	X			X	X

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Other current liabilities	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
Non-current liabilities								
Payables	X	X	X	X	(X)	(X)	X	X
Borrowings	X	X	X	X			X	X
Provisions	X	X	X	X			X	X
Employee benefits	X	X	X	X			X	X
Other liabilities	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
TOTAL LIABILITIES	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**
NET ASSETS	X	X	X	X	(X)	(X)	X	X
NET ASSETS/EQUITY								
Reserves	X	X	X	X	(X)	(X)	X	X
Accumulated surpluses/(deficits)	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
TOTAL NET ASSETS/EQUITY	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**

Statement of Financial Performance for the GGS—For Year Ended December 31, 20X2—Classification of Function of Government

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Revenue								
Taxes	X	X			(X)	(X)	X	X
Fees, fines, penalties	X	X	X	X	(X)	(X)	X	X
Revenue from other sectors	X	X	X	X	(X)	(X)		
Transfers from other governments	X	X	X	X			X	X
Other operating revenue	X	X	X	X	(X)	(X)	X	X
Total revenue	X	X	X	X	(X)	(X)	X	X
Expenses								
General public services	X	X					X	X
Defense	X	X					X	X
Public order and safety	X	X	X	X			X	X
Economic affairs	X	X					X	X
Environmental protection	X	X	X	X	(X)	(X)	X	X
Housing and community amenities	X	X	X	X	(X)	(X)	X	X
Health	X	X	X	X			X	X
Recreational, cultural, and religious	X	X					X	X
Education	X	X	X	X	(X)	(X)	X	X
Social protection	X	X	X	X	(X)	(X)	X	X
Total expenses	**X**	**X**	**X**	**X**	**(X)**	**(X)**	**X**	**X**
Surplus/(deficit) for the period	X	X	X	X	(X)	(X)	X	X

Statement of Financial Performance for the GGS—For Year Ended December 31, 20X2—Economic Classification of Expense (Alternative Presentation Method)

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Revenue								
Taxes	X	X			(X)	(X)	X	X
Fees, fines, penalties	X	X	X	X	(X)	(X)	X	X
Revenue from other sectors	X	X	X	X	(X)	(X)		
Transfers from other governments	X	X	X	X			X	X
Other operating revenue	X	X	X	X	(X)	(X)	X	X
Total revenue	X	X	X	X	(X)	(X)	X	X
Expenses								
Compensation of Employees	X	X	X	X	(X)	(X)	X	X
Use of Goods and Services	X	X	X	X	(X)	(X)	X	X
Consumption of Fixed Capital	X	X	X	X	(X)	(X)	X	X
Interest	X	X	X	X	(X)	(X)	X	X
Subsidies	X	X	X	X	(X)	(X)	X	X
Social Benefits	X	X	X	X	(X)	(X)	X	X
Other Expense	X	X	X	X			X	X
Total expenses	X	X	X	X	(X)	(X)	X	X
Surplus/(deficit)	X	X	X	X	(X)	(X)	X	X

Statement of Changes in Net Assets/Equity for the GGS—For The Year Ended December 31, 20X2

(in thousands of currency units)

	GGS					
	Revaluation Reserve	**Translation Reserve**	**Accumulated Surpluses/ (Deficits)**	**PFC and PNFC**	**Eliminations**	**Total W-of-G**
Balance at December 31, 20X0	X	(X)	X	X	X	X
Surplus on revaluation of property	X			X		X
Deficit on revaluation of investments	(X)			(X)	X	(X)
Currency translation differences		(X)		(X)		(X)
Net gains and losses not recognized in the statement of financial performance	X	(X)		X	(X)	X
Net surplus for the period			X	X	(X)	X
Balance at December 31, 20X1	X	(X)	X	X	(X)	X
Deficit on revaluation of property	(X)			(X)	X	(X)
Surplus on revaluation of investments	X			X	(X)	X
Currency translation differences		(X)		X		X
Net gains and losses not recognized in the statement of financial performance	(X)	(X)		(X)	(X)	(X)
Net deficit for the period			(X)	(X)	(X)	(X)
Balance at December 31, 20X2	X	(X)	X	X	(X)	X

Cash Flow Statement for the GGS— For Year Ended December 31, 20X2

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts								
Taxation	X	X			(X)	(X)	X	X
Sales of goods and services			X	X	(X)	(X)	X	X
Grants			X	X	(X)	(X)	X	X
Interest received			X	X			X	X
Dividends from other sectors to government	X	X			(X)	(X)		
Other receipts	X	X	X	X	(X)	(X)	X	X
Payments								
Employee costs	(X)	(X)	(X)	(X)			(X)	(X)
Retirement Benefits	(X)	(X)	(X)	(X)			(X)	(X)
Suppliers	(X)	(X)	(X)	(X)			(X)	(X)
Interest paid	(X)	(X)	(X)	(X)			(X)	(X)
Dividend to other sectors			(X)	(X)	X	X		
Other payments	(X)	(X)	(X)	(X)	X	X	(X)	(X)
Net cash flows from operating activities	X	X	X	X	(X)	(X)	X	X
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of plant and equipment	(X)	(X)	(X)	(X)			(X)	(X)
Proceeds from sale of plant and equipment	X	X	X	X			X	X
Proceeds from sale of investments	X	X	X	X			X	X
Purchase of foreign currency securities	(X)	(X)	(X)	(X)			(X)	(X)
Net cash flows from investing activities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
CASH FLOWS FROM FINANCING ACTIVITIES								

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**	**20X2**	**20X1**
Proceeds from borrowings	X	X	X	X			X	X
Repayment of borrowings	(X)	(X)	(X)	(X)			(X)	(X)
Net cash flows from financing activities	X	X	X	X	(X)	(X)	X	X
Net increase/(decrease) in cash and cash equivalents	X	X	X	X	(X)	(X)	X	X
Cash and cash equivalents at beginning of period	X	X	X	X	(X)	(X)	X	X
Cash and cash equivalents at end of period	X	X	X	X	(X)	(X)	X	X

International Public Sector Accounting Standard (IPSAS) 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* has been superseded by IPSAS 47, *Revenue*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2026. As a result, IPSAS 23 is no longer applicable and has been removed.

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IPSAS 24, *PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 24, *Presentation of Budget Information in Financial Statements* was issued in December 2006.

Since then, IPSAS 24 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 42, *Social Benefits* (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 24

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Amended	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
21	Amended	*Improvements to IPSAS* October 2018
22	Amended	*Improvements to IPSAS* October 2018
24	Amended	*Improvements to IPSAS* October 2018
26	Amended	*Improvements to IPSAS* April 2016
46	Amended	*The Applicability of IPSAS* April 2016
48	Amended	IPSAS 42 January 2019
54A	New	IPSAS 33 January 2015
54B	Amended	*Improvements to IPSAS* April 2016
54C	New	*The Applicability of IPSAS* April 2016
54D	New	*Improvements to IPSAS* October 2018
54E	New	IPSAS 42 January 2019

Paragraph Affected	How Affected	Affected By
55	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
IE	Amended	IPSAS 42 January 2019 IPSAS 47 May 2023

IPSAS 24, *PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS*

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International Public Sector Accounting Standard 24, *Presentation of Budget Information in Financial Statements*, is set out in paragraphs 1–55. All the paragraphs have equal authority. IPSAS 24 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. This Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating (a) compliance with the approved budget(s) for which they are held publicly accountable and (b) where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

Scope

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

3. **This Standard applies to public sector entities which are required or elect to make their approved budget(s) publicly available.**

4. [Deleted]

5. This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or make comparisons with, approved budgets that are not made publicly available.

6. In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities, or entities included in the financial statements of a government or other public sector entity. This may occur (a) where, for example, a government's financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or (b) where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities that present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Definitions

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

   Accounting basis means the accrual or cash basis of accounting as defined in the accrual basis IPSAS and the Cash Basis IPSAS.

   Annual budget means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

   Appropriation is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

   Approved budget means the expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.

   Budgetary basis means the accrual, cash, or other basis of accounting adopted in the budget that has been approved by the legislative body.

Comparable basis means the actual amounts presented on the same accounting basis, same classification basis, for the same entities, and for the same period as the approved budget.

Final budget is the original budget, adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period.

Multi-year budget is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.

Original budget is the initial approved budget for the budget period.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Approved Budgets

8. An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multi-year budget period, based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority. An approved budget is not a forward estimate, or a projection based on assumptions about future events and possible management actions that are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information, which may be in the form of a forecast, a projection, or a combination of both; for example, a one-year forecast plus a five-year projection.

9. In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget, and in others it may be the final budget.

10. If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

Original and Final Budget

11. The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances, and include outstanding purchase orders and contracts where goods or services have not yet been received.

12. Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, war or natural disasters. In addition, there may be a shortfall in budgeted revenues during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.

Actual Amounts

13. This Standard uses the term actual or actual amount to describe the amounts that result from execution of the budget. In some jurisdictions, budget out-turn, budget execution, or similar terms may be used with the same meaning as actual or actual amount.

Presentation of a Comparison of Budget and Actual Amounts

14. **Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:**

    (a) **The original and final budget amounts;**

    (b) **The actual amounts on a comparable basis; and**

    (c) **By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.**

15. Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget that is made publicly available will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the variance in accounting), may also be presented in the financial statements for completeness.

16. An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

17. An entity may be required, or may elect, to make publicly available its original budget, its final budget, or both its original and final budget. In circumstances where both the original and final budget are required to be made publicly available, the legislation, regulation, or other authority will often provide guidance on whether explanation of material differences between the actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 14(c). In the absence of any such guidance, material differences may be determined by reference to, for example, (a) differences between actual and original budget to focus on performance against original budget, or (b) differences between actual and final budget to focus on compliance with the final budget.

18. In many cases, the final budget and the actual amount will be the same. This is because budget execution is monitored over the reporting period, and the original budget progressively revised to reflect changing conditions, changing circumstances, and experiences during the reporting period. Paragraph 29 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. Those disclosures, together with the disclosures required by paragraph 14 above, will ensure that entities that make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

19. Management discussion and analysis, operations review, or other public reports that provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In

accordance with paragraph 14(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements, unless (a) included in other public reports or documents issued in conjunction with the financial statements, and (b) the notes to the financial statements identify the reports or documents in which the explanation can be found.

20. Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 14 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole-of-government reporting entity, the disclosures required by paragraph 14 will be made only in respect of the general government sector of the government.

Presentation and Disclosure

21. **An entity shall present a comparison of budget and actual amounts as additional budget columns in the financial statements only where the financial statements and the budget are prepared on a comparable basis.**

22. Comparisons of budget and actual amounts may be presented in a separate financial statement, (Statement of Comparison of Budget and Actual Amounts or a similarly titled statement) included in the complete set of financial statements as specified in IPSAS 1. Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the existing financial statements presented in accordance with IPSAS. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

23. When the budget and financial statements are not prepared on a comparable basis, a separate Statement of Comparison of Budget and Actual Amounts is presented. In these cases, to ensure that readers do not misinterpret financial information that is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ, and that the Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

24. In those jurisdictions where budgets are prepared on the accrual basis and encompass the full set of financial statements, additional budget columns can be added to all the financial statements required by IPSAS. In some jurisdictions, budgets prepared on the accrual basis may be presented in the form of only certain of the financial statements that comprise the full set of financial statements as specified by IPSAS – for example, the budget may be presented as a statement of financial performance or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns can be included in the financial statements that are also adopted for presentation of the budget.

Level of Aggregation

25. Budget documents may provide great detail about particular activities, programs, or entities. These details are often aggregated into broad classes under common budget heads, budget classifications, or budget headings for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget documents.

26. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, requires financial statements to provide information that meets the qualitative characteristics, including that the information is relevant to the accountability and decision-making needs of users, faithfully represents the financial position, financial

performance, and cash flows of the entity, meets the other qualitative characteristics and takes account of the constraints on information included in general purpose financial reports.

27. In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as outlined in paragraph 26 above and in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.*

28. Additional budget information, including information about service achievements, may be presented in documents other than financial statements. A cross reference from financial statements to such documents is encouraged, particularly to link budget and actual data to nonfinancial budget data and service achievements.

Changes from Original to Final Budget

29. **An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors:**

    (a) **By way of note disclosure in the financial statements; or**

    (b) **In a report issued before, at the same time as, or in conjunction with, the financial statements, and shall include a cross reference to the report in the notes to the financial statements.**

30. The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, a public sector entity will include in the notes to the financial statements or in a separate report issued before, in conjunction with, or at the same time as the financial statements, an explanation of changes between the original and final budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where disclosures are made in separate reports rather than in the financial statements, the notes to the financial statements will include a cross reference to the report.

Comparable Basis

31. **All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.**

32. The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash, or other basis), same classification basis, and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

33. Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 6, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard.

Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

34. Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, a government may adopt the accrual basis for its financial statements and the cash basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report assets, liabilities, net assets/equity, revenues, expenses, other changes in net assets/equity, and cash flows. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner that facilitates the comparison of budget and actual data for management and for accountability purposes, for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public, and other users on a relevant and timely basis.

35. In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector, and encompass only entities fulfilling the primary or nonmarket functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government. IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, specifies requirements for note disclosure of financial information about the general government sector of a whole-of-government entity that adopts the accrual basis of accounting and elects to make such disclosures. In many cases, disclosures made in accordance with IPSAS 22 will encompass the same entities, activities, and classification bases as adopted in budgets prepared consistent with the general government sector as defined in statistical reporting models. In these cases, disclosures made in accordance with IPSAS 22 will also facilitate the disclosures required by this Standard.

36. In statistical reporting models, the general government sector may comprise national, state/provincial, and local government levels. In some jurisdictions, the national government may (a) control state/provincial and local governments, (b) consolidate those governments in its financial statements and (c) develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental entities. However, where a national government does not control state/provincial or local governments, its financial statements will not consolidate state/provincial or local governments. Rather, separate financial statements are prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Multi-year Budgets

37. Some governments and other entities approve and make publicly available multi-year budgets, rather than separate annual budgets. Conventionally, multi-year budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multi-year budget for that component period. In some cases, the multi-year budget provides for a roll forward of unused appropriations in any single year.

38. Governments and other entities with multi-year budgets may take different approaches to determining their original and final budget, depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial

budget are legally authorized to be spent in the second year, the original budget for the second-year period will be increased for these carry over amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in identifying which amounts are attributable to each annual period in determining annual budgets for the purposes of this Standard. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the original budget for the second annual period, and that budget together with any amendments thereto would form the final budget for the second year. Where multi-period budgets are adopted, entities are encouraged to provide additional note disclosure about the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

39. **An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.**

40. There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, or cash flows plus certain commitments, while the financial statements report cash flows and accrual information.

41. Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, by economic nature (compensation of employees, use of goods or services, etc.), or function (health, education, etc.). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, students graduating from tertiary education programs or surgical operations performed by hospital emergency services), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education or health) may be approved separately from a capital budget for capital outlays (for example, infrastructure or buildings).

42. IPSAS 1 requires entities to present, in notes to the financial statements, information about the basis of preparation of the financial statements and the significant accounting policies adopted. Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.

43. **An entity shall disclose in notes to the financial statements the period of the approved budget.**

44. Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multi-year periods. Disclosure of the period covered by the approved budget, where that period differs from the reporting period adopted for the financial statements, will assist the users of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget, where that period is the same as the period covered by the financial statements, will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.

45. **An entity shall identify in notes to the financial statements the entities included in the approved budget.**

46. IPSAS require entities to prepare and present financial statements that consolidate all resources controlled by the entity. At the whole-of-government level, financial statements prepared in accordance with IPSAS will encompass budget-dependent entities and commercial public sector entities controlled by the government. However, as noted in paragraph 35, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph 31, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget, and how the budget entity differs from the entity reflected in the financial statements.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

47. **The actual amounts presented on a comparable basis to the budget in accordance with paragraph 31 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the following actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences:**

    (a) **If the accrual basis is adopted for the budget, total revenues, total expenses, and net cash flows from operating activities, investing activities, and financing activities; or**

    (b) **If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities, and financing activities.**

    The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements.

48. Differences between the actual amounts identified consistent with the comparable basis, and the actual amounts recognized in the financial statements, can usefully be classified into the following:

    (a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis and the financial statements are prepared on the accrual basis;

    (b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

    (c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

    There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget. For example, social benefits as defined in IPSAS 42, *Social Benefits*, are limited to cash transfers. The GFS classification of social benefits is wider, and includes some individual services provided by governments.

49. The reconciliation required by paragraph 47 of this Standard will enable the entity to better discharge its accountability obligations, by identifying major sources of difference between the actual amounts on a budget basis and the amounts recognized in the financial statements. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

50. For some entities adopting the same basis of accounting for preparation of both the budget documents and the financial statements, only the identification of differences between actual amounts in the budget and the equivalent amounts in the financial statements will be required. This will occur where the budget (a) is prepared for the same period, (b) encompasses the same entities, and (c) adopts the same presentation

format as the financial statements. In these cases, a reconciliation is not required. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity, or reporting period; for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only noncommercial activities of the entity, or maybe a multi-year budget. A reconciliation would be necessary where there are presentation, timing, or entity differences between the budget and the financial statements prepared on the same accounting basis.

51. For those entities using the cash basis (or a modified cash or modified accrual basis) of accounting for the presentation of the approved budget and the accrual basis for their financial statements, the major totals presented in the statement of budget and actual comparison will be reconciled to net cash flows from operating activities, net cash flows from investing activities, and net cash flows from financing activities as presented in the cash flow statement prepared in accordance with IPSAS 2, *Cash Flow Statements.*

52. **The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.**

53. This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities that make publicly available their approved budget(s). It does not require the disclosure of a comparison of actuals of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

Effective Date

54. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2009. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2009, it shall disclose that fact.**

54A. **Paragraph 55 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

54B. **Paragraph 26 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

54C. **Paragraph 4 was deleted and paragraphs 3 and 46 were amended by *The Applicability of IPSAS,* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

54D. **Paragraphs 21, 22 and 24 were amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

54E. **Paragraph 48 was amended by IPSAS 42 issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

55. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this

effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 24.

Scope of the Standard

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

BC2. In many jurisdictions, legislation or other authority requires public sector entities, whether the government or a particular government entity, to make public the approved budget(s) for which they are held accountable. Such disclosure is required in the interest of transparency of government. In some cases, a government or government entity not subject to such legislation or other authority may voluntarily elect to make its approved budget publicly available. This Standard applies to governments and government entities that make publicly available the approved budget(s) for which they are held accountable.

BC3. The approved budget reflects the financial characteristics of the government's or other entity's plans for the forthcoming period and, in respect of activities funded from the government budget, represent the authority to expend funds. Reporting the results of budget execution against those financial plans will enhance the transparency of financial statements, and is an important element in the discharge of accountability of entities which are required to, or elect to, make their budget(s) publicly available. The inclusion of a comparison of budget and actual amounts in financial statements will provide financial information to assist users to assess whether resources were raised as anticipated and used in accordance with the budget(s) approved by the legislature or other authoritative body. This Standard uses the term actual or actual amount to describe the amounts that result from execution of the budget. In other jurisdictions, budget out-turn, budget execution, or similar terms may be used with the same meaning as actual or actual amount.

BC4. Many governments and government entities that make publicly available their approved budget(s) already report actual against budgeted amounts in their financial statements. They also include an explanation of material differences between actual and budget (a) in notes to their financial statements, or (b) in management discussion and analysis or similar reports, or (c) in budget out-turn or similar reports issued in conjunction with their financial statements. For these governments and government entities, comparisons of budget and actual amounts are generally made at the levels of oversight approved by the legislature or similar authority, and explanations of material differences are made where budgetary authority is exceeded. The IPSASB is of the view that this practice is appropriate, and has issued this Standard to reinforce the practice, and to require that it be adopted by all entities that make publicly available their approved budgets.

BC5. This Standard does not require entities to make publicly available their approved budgets, or specify presentation requirements for approved budgets that are made publicly available. That is beyond the scope of this Standard. However, the IPSASB has indicated that in the future it will consider whether an IPSAS should be developed to deal with these matters.

Need for an International Public Sector Accounting Standard

BC6. IPSAS 1 explains that the purpose of financial statements encompasses the disclosure of information to discharge the entity's obligation (a) to be accountable for such matters as its financial position, performance, and cash flows, and (b) to provide information useful to assess its performance in terms of its service costs, efficiency, and accomplishments. It also notes that financial reporting may provide users with information about an entity's compliance with, for example, the legally adopted budget.

BC7. Prior to issue of this Standard, IPSAS 1 encouraged, but did not require, financial statements to include a comparison of budget and actual amounts where the financial statements and the budget are on the same

basis. However, in some cases, an entity may make public an approved budget prepared and presented on a different basis to the financial statements, and elect to include in financial statements a comparison of actual and budget. IPSAS 1 did not provide guidance on the details to be disclosed or the manner of presentation in such circumstances. The IPSASB is of the view that IPSAS should deal with such circumstances.

BC8. This Standard applies where an entity is required to make publicly available its approved budget(s), or elects to do so. The IPSASB is of the view that, in such cases, the intent and effect of the legislature or other authority, or the voluntary action of the entity itself, is clear – the entity is held publicly accountable for its performance against and compliance with the budget. The IPSASB is also of the view that disclosure of information about budget and actual amounts is a necessary element for the discharge of accountability for such entities, and requirements to ensure appropriate disclosure in financial statements should be included in an IPSAS.

BC9. The application of the requirements of this Standard for the disclosure of a comparison of actual and budget amounts, where the financial statements and the budget are prepared on the same basis, will further enhance the discharge of the entity's accountability for its performance. The application of the requirements of this Standard, where the budget and the financial statements are prepared on different bases, will reinforce the role of financial statements in discharging the entity's obligation to be accountable for its compliance with approved budgets.

BC10. When this Standard was issued, the IPSASB considered whether it should require or encourage all public sector entities other than [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) to make publicly available their approved budgets and to comply with the requirements of this Standard. The IPSASB noted that the purpose of this Standard was not to specify whether approved budgets should be made publicly available, and agreed that it should not impose such requirements on entities or add to existing encouragements until it had further considered its role in respect of developing requirements for budget reporting. The IPSASB also noted that public sector entities that do not make publicly available their approved budgets are not prohibited from applying the requirements of this Standard if they choose to do so.

Comparisons with Approved Budget

BC11. This Standard requires disclosure of the original and final budget amounts and actual amounts on a comparable basis with the budget amounts. This reinforces the compliance component of accountability identified in IPSAS 1. Users of the financial statements will be able to identify and determine the differences between amounts in the original and/or final approved budget and their equivalent actual amounts (often referred to as "variances" in accounting) for each level of legislative oversight disclosed.

BC12. This Standard requires an explanation of material differences (whether positive or negative) between actual and budget amounts to be made by way of note disclosure in the financial statements, unless such explanation is included in other publicly available documents issued in conjunction with the financial statements. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements, and strengthen the accountability of entities that make their budgets publicly available. The explanation of such differences may be included in a management discussion and analysis, operations review, budget out-turn, or similar report issued in conjunction with the financial statements. The IPSASB is of the view that where explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

Disclosure of Original and Final Budget

BC13. Budgets are prepared in advance of the reporting period, and the occurrence of natural disasters and changes in political or economic conditions may dictate a need for revisions to the initially approved budget

during the budget period. In some jurisdictions, the authority for such revisions (within specified limits) is delegated to the Minister of Finance or similar office-holder. In other jurisdictions, the revisions must be approved by the legislature. Where those revisions are authorized by the appropriate authority, they comprise the final budget for the reporting period. The IPSASB is of the view that disclosure of the original and final budget is necessary to ensure that readers of the financial statements are aware of the nature and extent of changes to the original budget that have been approved during the course of the reporting period.

BC14. Revisions to the original budget may occur as a result of policy shifts, including changes in government priorities during the reporting period, or of unanticipated economic conditions. The IPSASB is of the view that disclosure of an explanation of the reasons for changes between the original and final budget during the reporting period, including whether changes between the original and final budget are a consequence of reallocations within the budget or of other factors, is necessary for the discharge of accountability, and will provide useful input for analysis of the financial effects of changing economic conditions and of policy shifts. The explanation may be included in the notes to the financial statements or in a report issued before, at the same time as, or in conjunction with, the financial statements. As noted above in respect of explanations of budget variances, the IPSASB is of the view that where an explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

Adoption of the Budget Basis and Reconciliation of Budget and Accounting Bases

BC15. Entities may adopt different accounting bases for the preparation of their financial statements and for their approved budgets. In particular, some entities that adopt the accrual basis of accounting for preparation of their financial statements prepare their budgets on the cash basis. Differences between the budgetary basis and the financial statements may also arise as a consequence of timing, entity, or classification differences.

BC16. This Standard requires that the comparisons of budget and actual amounts be presented on the same basis (format, terminology, budgetary basis, and classification) and for the same entities and period as for the approved budget. This is necessary to enable the financial statements to demonstrate the extent to which actual amounts were used in accordance with legally authorized budgets. It will ensure that disclosures are made on a comparable basis, and that the financial statements demonstrate compliance with the approved budget. Consequently, amounts reflected in the financial statements will need to be recast to be comparable to the approved budget where there are basis, timing, or entity differences.

BC17. To better enable users to identify the relationship between the budget and the financial statements, this Standard requires that when the financial statements and the budget are not prepared on a comparable basis, actual amounts on the budget basis are to be reconciled to specified equivalent amounts presented in the financial statements, identifying separately any basis, timing, and entity differences. If the budget and the financial statements are prepared on the same basis, the reconciliation of differences would not be necessary.

Presentation of Budget and Actual Information

BC18. This Standard allows the budget and actual information to be presented in a separate statement or, only when the budget and the financial statements are prepared on a comparable basis, as an additional budget column in existing financial statements. Flexibility in the method of presentation allows entities to present the comparison in a manner that best serves user needs, while at the same time retaining the prominence that comes from inclusion in the financial statements. The prohibition on adopting the additional column approach for presentation when the financial statements and budget are prepared on a different basis of accounting is necessary to ensure that the comparison of budget and actual amounts are presented on a comparable basis.

Initial Application

BC19. This Standard was issued by the IPSASB in December 2006. Its application is not required until periods beginning on or after January 1, 2009. The deferred application is intended to provide sufficient time for entities to develop and, as appropriate, align their budget and financial reporting procedures, time periods and coverage. Earlier adoption of this Standard is encouraged.

BC20. The IPSASB considered whether to also provide relief from application of this Standard for two years from initial adoption of IPSAS, but considered that such relief was not necessary. This was because entities would assess, and factor into their timing for initial adoption of all IPSAS, the requirements of this Standard.

Relief from the Requirement to Disclose Comparative Amounts

BC21. This Standard does not require that the financial statements of the current period include the disclosure of a comparison of actuals of a previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

BC22. The focus of this Standard is on supporting the discharge of the entity's obligation to be accountable for its compliance with the approved budget for the current reporting period. Many explanatory disclosures required by this Standard may be located in other documents issued in conjunction with, but not as part of, the financial statements. The IPSASB is concerned that the requirement for disclosure of comparative information would result in information overload and an over-complex network of reporting requirements, and would not be in the interests of users of the financial statements.

Revision of IPSAS 24 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC23. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 24 as a result of *Improvements to IPSAS*, 2018

BC24. Paragraphs 21, 22 and 24 referred to the "primary financial statements." Stakeholders have raised concerns that this term is not defined in IPSAS and could therefore cause confusion. The IPSASB noted that the term "financial statements" is used elsewhere in IPSAS with the same meaning. Consequently the IPSASB agreed to standardize the terminology and to replace the term "primary financial statements" with the term "financial statements" wherever this term occurred.

Revision of IPSAS 24 as a result of IPSAS 42, *Social Benefits*

BC25. In developing IPSAS 42, *Social Benefits*, the IPSASB noted that its definition of social benefits did not include all the transactions classified as social benefits under GFS. As some public sector entities may prepare budgets using the GFS basis, the IPSASB considered that it would be helpful to preparers to include social benefits as an example of where there may be differences in the classification schemes adopted for presentation of financial statements and the budget.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 24.

Statement of Comparison of Budget and Actual Amounts

For Government XX for the Year Ended December 31, 20XX

Budget on Cash Basis

(Classification of Payments by Functions)

Note: The budget and the accounting basis is different. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

(in currency units)	Budgeted Amounts		Actual Amounts on Comparable Basis	[1]*Difference: Final Budget and Actual*
	Original	**Final**		
RECEIPTS				
Taxation	X	X	X	X
Aid Agreements				
International agencies	X	X	X	X
Other Grants and Aid	X	X	X	X
Proceeds: Borrowing	X	X	X	X
Proceeds: Disposal of plant and equipment	X	X	X	X
Trading Activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
PAYMENTS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social Benefits	(X)	(X)	(X)	(X)
Other social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)

[1] The “Difference…” column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(in currency units)	Budgeted Amounts		Actual Amounts on Comparable Basis	[1]*Difference: Final Budget and Actual*
	Original	**Final**		
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET RECEIPTS/(PAYMENTS)	**X**	**X**	**X**	**X**

Additional Column Approach

For Government YY for the Year Ended December 31, 20XX

Both Annual Budget and Financial Statements Adopt Accrual Basis

(Illustrated only for Statement of Financial Performance. Similar presentation would be adopted for other financial statements.)

Actual 20XX-1	(in currency units)	**Actual 20XX**	**Final Budget 20XX**	**Original Budget 20XX**	[2]*Difference: Original Budget and Actual*
	Revenue				
X	Taxes	X	X	X	X
X	Other compulsory contributions and levies	X	X	X	X
X	Transfers without a binding arrangement	X	X	X	X
X	Revenue from compliance obligations in a binding arrangement	X	X	X	X
X	Other revenue	X	X	X	X
X	**Total revenue**	**X**	**X**	**X**	**X**
	Expenses				
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)	(X)

2 The "Difference…" column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

Actual 20XX-1	(in currency units)	**Actual 20XX**	**Final Budget 20XX**	**Original Budget 20XX**	[2]*Difference: Original Budget and Actual*
(X)	Depreciation/amortization expense	(X)	(X)	(X)	(X)
(X)	Other expenses	(X)	(X)	(X)	(X)
(X)	Finance costs	(X)	(X)	(X)	(X)
(X)	**Total expenses**	**(X)**	**(X)**	**(X)**	**(X)**
X	Share of surplus of associates	X	X	X	X
X	**Surplus/(deficit) for the period**	**X**	**X**	**X**	**X**
	Attributable to:				
X	Owners of the controlling entity	X	X	X	X
X	Non-controlling interest	X	X	X	X
X		**X**	**X**	**X**	**X**

Extract of Note Disclosures—for Government X

(Government X presents its approved budget on a cash basis and the financial statements on the accrual basis.)

1. The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from January 1, 20XX to December 31, 20XX, and includes all entities within the general government sector. The general government sector includes all entities identified as government departments in note xx (prepared in accordance with IPSAS 35, *Consolidated Financial Statements*.)

2. The original budget was approved by legislative action on (date), and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies and subsequent revisions are explained more fully in the Operational Review and Budget Outcomes reports issued in conjunction with the financial statements.

3. The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.

4. The budget and the accounting bases differ. The financial statements for the whole-of-government are prepared on the accrual basis, using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements that include all controlled entities, including commercial public sector entities for the fiscal period from January 1, 20XX to December 31, 20XX. The financial statements differ from the budget which is approved on the cash basis and which deals only with the general government sector which excludes commercial public sector entities and certain other non-market government entities and activities.

5. The amounts in the financial statements were recast from the accrual basis to the cash basis, and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (commercial public sector entities) were made to express the actual amounts on a comparable basis to the final approved budget. The amount of these adjustments are identified in the following table.

6. A reconciliation between the actual amounts on a comparable basis as presented in the Statement of Comparison of Budget and Actual Amounts and the actual amounts in the Statement of Cash Flows for the Year Ended December 31, 20XX is presented below. The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector, and the financial statements consolidate all entities controlled by the government. There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the accrual basis.

	Operating	**Financing**	**Investing**	**Total**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**	**X**	**X**
Basis Differences	**X**	**X**	**X**	**X**
Timing Differences	**-**	**-**	**-**	**-**
Entity Differences	**X**	**X**	**X**	**X**
Actual Amount in the Statement of Cash Flows	**X**	**X**	**X**	**X**

(This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.)

Encouraged Note Disclosure: Biennial Budget on Cash Basis—For Government B for the Year Ended December 31, 20XX

(in currency units)	Original Biennial Budget Year	Target Budget for 1st Year	Revised Budget in 1st Year	1st Year Actual on Comparable Basis	Balance Available for 2nd Year	Target Budget for 2nd Year	Revised Budget in 2nd Year	2nd Year Actual on Comparable Basis	[3]*Difference: Budget and Actual over Budget Period*
RECEIPTS									
Taxation		X	X	X	X	X	X	X	X
Aid Agreements		X	X	X	X	X	X	X	X
Proceeds: Borrowing		X	X	X	X	X	X	X	X
Proceeds: Disposal of plant and equipment		X	X	X	X	X	X	X	X
Trading Activities									
Other receipts	X	X	X	X	X	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
PAYMENTS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Social Benefits	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**

[3] This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(in currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Available for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	[3]*Difference: Budget and Actual over Budget Period*
NET RECEIPTS/ (PAYMENTS)	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

International Public Sector Accounting Standard (IPSAS) 25, *Employee Benefits* has been superseded by IPSAS 39, *Employee Benefits*. This Standard applies for annual financial statements covering periods beginning on or after January 1, 2018. As a result, IPSAS 25 is no longer applicable and has been removed.

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IPSAS 26, *IMPAIRMENT OF CASH-GENERATING ASSETS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 36, *Impairment of Assets*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 36 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 26, *IMPAIRMENT OF CASH-GENERATING ASSETS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 26, *Impairment of Cash-Generating Assets* was issued in February 2008.

Since then, IPSAS 26 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued* Operations (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 26

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011

Paragraph Affected	How Affected	Affected By
2	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 IPSAS 31 January 2010 *Improvements to IPSAS* April 2016 *Impairment of Revalued Assets* July 2016 IPSAS 39 July 2016 IPSAS 40 January 2017 IPSAS 41 August 2018 IPSAS 44 May 2022 IPSAS 47 May 2023
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
5	Amended	*The Applicability of IPSAS* April 2016
6	Deleted	*Impairment of Revalued Assets* July 2016
7	Deleted	IPSAS 40 January 2017
8	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010 *Improvements to IPSAS* April 2016 IPSAS 44 May 2022 IPSAS 46 May 2023 IPSAS 47 May 2023
9	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
10	Amended	IPSAS 46 May 2023
10A	New	IPSAS 46 May 2023
11	Deleted	*Impairment of Revalued Assets* July 2016
12	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015 IPSAS 41 August 2018
13	Amended	IPSAS 46 May 2023
18	Amended	*The Applicability of IPSAS* April 2016
18A	New	IPSAS 40 January 2017
20A	New	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
23	Amended	IPSAS 40 January 2017
25	Amended	IPSAS 44 May 2022 IPSAS 46 May 2023
27	Amended	*Improvements to IPSAS* November 2010
29	Amended	IPSAS 47 May 2023
31	Amended	IPSAS 46 May 2023
32	Amended	IPSAS 46 May 2023
33	Amended	*Improvements to IPSAS* April 2016 IPSAS 46 May 2023
34	Amended	IPSAS 46 May 2023
35	Amended	IPSAS 46 May 2023
36	Amended	IPSAS 46 May 2023
Heading above paragraph 38	Amended	IPSAS 46 May 2023
38	Deleted	IPSAS 46 May 2023
39	Deleted	IPSAS 46 May 2023
40	Deleted	IPSAS 46 May 2023
Heading above paragraph 41	Amended	IPSAS 46 May 2023
41	Amended	IPSAS 46 May 2023
42	Amended	IPSAS 46 May 2023
66	Amended	IPSAS 46 May 2023
66A	New	IPSAS 46 May 2023
71	Amended	IPSAS 40 January 2017
73	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 45 May 2023
73A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
76	Amended	IPSAS 40 January 2017
78	Amended	IPSAS 46 May 2023
85	Amended	IPSAS 46 May 2023
87	Amended	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
88	Amended	IPSAS 40 January 2017
89	Amended	IPSAS 46 May 2023
90A	New	IPSAS 40 January 2017
90B	New	IPSAS 40 January 2017
90C	New	IPSAS 40 January 2017
90D	New	IPSAS 40 January 2017
90E	New	IPSAS 40 January 2017
90F	New	IPSAS 40 January 2017
90G	New	IPSAS 40 January 2017
90H	New	IPSAS 40 January 2017
90I	New	IPSAS 40 January 2017
90J	New	IPSAS 40 January 2017
90K	New	IPSAS 40 January 2017
90L	New	IPSAS 40 January 2017
90M	New	IPSAS 40 January 2017
90N	New	IPSAS 40 January 2017
90O	New	IPSAS 40 January 2017
91	Amended	IPSAS 40 January 2017
92	Amended	IPSAS 40 January 2017 IPSAS 46 May 2023
94	Amended	IPSAS 46 May 2023
96	Deleted	IPSAS 40 January 2017
97A	New	IPSAS 40 January 2017
97B	New	IPSAS 40 January 2017
97C	New	IPSAS 40 January 2017
97D	New	IPSAS 40 January 2017
97E	New	IPSAS 40 January 2017
97F	New	IPSAS 40 January 2017
97G	New	IPSAS 40 January 2017
97H	New	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
98	Amended	IPSAS 40 January 2017
99	Amended	IPSAS 40 January 2017
100	Amended	IPSAS 40 January 2017 IPSAS 46 May 2023
102	Amended	IPSAS 40 January 2017
103	Amended	IPSAS 40 January 2017
104	Amended	IPSAS 46 May 2023
106	Amended	IPSAS 40 January 2017
107	Amended	IPSAS 40 January 2017
108	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 40 January 2017 IPSAS 45 May 2023
108A	Amended	*Impairment of Revalued Assets* July 2016 *Improvements to IPSAS* January 2020 IPSAS 45 May 2023
110	Amended	IPSAS 40 January 2017
111	Amended	IPSAS 40 January 2017
111A	New	IPSAS 40 January 2017
111B	New	IPSAS 40 January 2017
115	Amended	*Impairment of Revalued Assets* July 2016
118	Amended	IPSAS 45 May 2023
120	Amended	IPSAS 40 January 2017 IPSAS 46 May 2023
122	Amended	IPSAS 40 January 2017
122A	New	IPSAS 40 January 2017
123	Amended	*Improvements to IPSAS* January 2010 IPSAS 40 January 2017 IPSAS 46 May 2023
124	Amended	*Impairment of Revalued Assets* July 2016 IPSAS 40 January 2017
125	Amended	IPSAS 40 January 2017
126A	New	*Improvements to IPSAS* January 2010

Paragraph Affected	How Affected	Affected By
126B	New	*Improvements to IPSAS* January 2010
126C	New	IPSAS 31 January 2010
126D	New	IPSAS 33 January 2015
126E	New	IPSAS 35 January 2015
126F	New	*Improvements to IPSAS* April 2016
126G	New	*The Applicability of IPSAS* April 2016
126H	New	*Impairment of Revalued Assets* July 2016
126I	New	IPSAS 39 July 2016
126J	New	IPSAS 40 January 2017
126K	Amended	*COVID-19: Deferral of Effective Dates* November 2020
126L	New	*Improvements to IPSAS* January 2020
126M	New	IPSAS 44 May 2022
126N	New	IPSAS 45 May 2023
126O	New	IPSAS 46 May 2023
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IPSAS 26, *IMPAIRMENT OF CASH-GENERATING ASSETS*

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International Public Sector Accounting Standard 26, *Impairment of Cash-Generating Assets*, is set out in paragraphs 1–127. All the paragraphs have equal authority. IPSAS 26 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired, and to ensure that impairment losses are recognized. This Standard also specifies when an entity should reverse an impairment loss, and prescribes disclosures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:**

   (a) **Inventories (see IPSAS 12, *Inventories*);**

   (b) **Binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement that are recognized in accordance with IPSAS 47, *Revenue*;**

   (c) **Financial assets that are within the scope of IPSAS 41, *Financial Instruments*;**

   (d) **Investment property that is measured at fair value (see IPSAS 16, *Investment Property*);**

   (e) [Deleted]

   (f) **Deferred tax assets (see the relevant international or national accounting standard dealing with deferred tax assets);**

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

   (h) [Deleted]

   (i) [Deleted]

   (j) **Biological assets related to agricultural activity within the scope of IPSAS 27, *Agriculture* that are measured at fair value less costs to sell;**

   (k) **Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;**

   (l) [Deleted]

   (la) **Non-current assets (or disposal groups) classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations;* and**

   (m) **Other cash-generating assets in respect of which accounting requirements for impairment are included in another Standard.**

3. [Deleted]

4. [Deleted]

5. Public sector entities that hold non-cash-generating assets as defined in paragraph 13 apply IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to such assets. Public sector entities that hold cash-generating assets apply the requirements of this Standard.

6. [Deleted]

7. [Deleted]

8. This Standard does not apply to inventories, binding arrangement assets and assets arising from costs to obtain or fulfill a binding arrangement, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) because existing standards applicable to these assets contain requirements

for recognizing and measuring such assets. This Standard does not apply to deferred tax assets, assets related to employee benefits, or deferred acquisition costs and intangible assets arising from an insurer's contractual rights under insurance contracts. The impairment of such assets is addressed in the relevant international or national accounting standards. In addition, this Standard does not apply to biological assets related to agricultural activity that are measured at fair value less costs of disposal. IPSAS 27 dealing with biological assets related to agricultural activity contains measurement requirements.

9. This Standard does not apply to any financial assets that are included in the scope of IPSAS 28, *Financial Instruments: Presentation.* Impairment of these assets is dealt with in IPSAS 41.

10. This Standard does not require the application of an impairment test to investment property measured at fair value within the scope of IPSAS 16. Under the current value model in IPSAS 16, an investment property is carried at fair value at the reporting date, and any impairment will be taken into account in the valuation.

10A. However, this Standard applies to cash-generating assets that are carried at revalued amounts (i.e., fair value or current operational value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IPSAS, such as the current value model in IPSAS 45, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The only difference between a cash-generating asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the cash-generating asset.

(a) If the disposal costs are negligible, the recoverable amount of the revalued cash-generating asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued cash-generating asset is impaired and recoverable amount need not be estimated.

(b) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued cash-generating asset is necessarily less than its fair value. Therefore, the revalued cash-generating asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the cash-generating asset may be impaired.

11. [Deleted]

12. Investments in:

(a) Controlled entities, as defined in IPSAS 35, *Consolidated Financial Statements*;

(b) Associates, as defined in IPSAS 36, *Investments in Associates and Joint Ventures*; and

(c) Joint arrangements, as defined in IPSAS 37, *Joint Arrangements*,

are financial assets that are excluded from the scope of IPSAS 41. Where such investments are in the nature of cash-generating assets, they are dealt with under this Standard. Where these assets are in the nature of non-cash-generating assets, they are dealt with under IPSAS 21.

Definitions

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

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs of disposal and its value in use.

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

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Cash-Generating Assets

14. Cash-generating assets are assets held with the primary objective of gener-ating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that an entity intends to (a) generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and (b) earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to "an asset" or "assets" in the following paragraphs of this Standard are references to "cash-generating asset(s)."

15. There are a number of circumstances in which public sector entities may hold some assets with the primary objective of generating a commercial return, although the majority of their assets are not held for that purpose. For example, a hospital may deploy a building for fee-paying patients. Cash-generating assets of a public sector entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

16. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

17. In other instances an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or IPSAS 21. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies this Standard, rather than IPSAS 21.

18. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable, rather than IPSAS 21. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs 14–17. Paragraph 114 requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of public sector entities, the presumption is that assets are non-cash-generating in these circumstances and, therefore, IPSAS 21 will apply.

18A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets.

IPSAS 21 deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in IPSAS 21 includes service potential. Consequently, an entity applies this Standard to determine whether to impair goodwill.

Depreciation

19. Depreciation and amortization are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term "amortization" is generally used instead of "depreciation." Both terms have the same meaning.

Impairment

20. IPSAS 21 defines an "impairment" as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. Impairment of a cash-generating asset, therefore, reflects a decline in the future economic benefits or service potential embodied in an asset to the entity that controls it. For example, an entity may have a municipal parking garage that is currently being used at 25 percent of capacity. It is held for commercial purposes, and management has estimated that it generates a commercial rate of return when usage is at 75 percent of capacity and above. The decline in usage has not been accompanied by a significant increase in parking charges. The asset is regarded as impaired because its carrying amount exceeds its recoverable amount.

Identifying an Asset that may be Impaired

20A. Paragraphs 21–30 specify when recoverable amount shall be determined. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:

(a) Paragraphs 31–70 set out the requirements for measuring recoverable amount. These requirements also use the term 'an asset' but apply equally to an individual asset and a cash-generating unit.

(b) Paragraphs 71–97 set out the requirements for recognizing and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 71–75. Paragraphs 76–97 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.

(c) Paragraphs 98–105 set out the requirements for reversing an impairment loss recognized in prior periods for an asset or a cash-generating unit. Again, these requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110–111, and for goodwill in paragraphs 111A–111B.

(d) Paragraphs 112–113 set out the requirements for the redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset.

(e) Paragraphs 114–122A specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs 123–125 specify additional disclosure requirements for cash-generating units to which goodwill or intangible assets with indefinite useful lives have been allocated for impairment testing purposes.

21. An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 25–27 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except for the circumstances described in

paragraph 23, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.

22. **An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.**

23. **Irrespective of whether there is any indication of impairment, an entity shall also:**

    (a) **Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

    (b) **Test goodwill acquired in an acquisition for impairment annually in accordance with paragraphs 90A–90O.**

24. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

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

    External sources of information

    (a) **There are observable indicators that an asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;**

    (b) **Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates, or in the market to which an asset is dedicated;**

    (c) **Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;**

    Internal sources of information

    (d) **Evidence is available of obsolescence or physical damage of an asset;**

    (e) **Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite[1];**

    (f) **A decision to halt the construction of the asset before it is complete or in a usable condition; and**

[1] Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with IPSAS 44.

(g) **Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.**

26. The list in paragraph 25 is not exhaustive. An entity may identify other indications that an asset may be impaired, and these would also require the entity to determine the asset's recoverable amount.

27. Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:

(a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;

(b) Actual net cash flows or surplus or deficit flowing from the asset that are significantly worse than those budgeted;

(c) A significant decline in budgeted net cash flows or surplus, or a significant increase in budgeted loss, flowing from the asset; or

(d) Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

28. As indicated in paragraph 23, this Standard requires an intangible asset with an indefinite useful life or an intangible asset that is not yet available for use to be tested for impairment, at least annually. Apart from when the requirements in paragraph 23 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 25.

29. As an illustration of paragraph 28, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

(a) If the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long remaining useful life.

(b) If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates, but previous sensitivity analysis of recoverable amount shows that:

(i) It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (for example, in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly revenues arising from transactions with binding arrangements) to compensate for any increase in market rates); or

(ii) The decrease in recoverable amount is unlikely to result in a material impairment loss.

30. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortization) method, or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring Recoverable Amount

31. This Standard defines "recoverable amount" as the higher of an asset's fair value less costs of disposal and its value in use. Paragraphs 32–70 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit.

32. It is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

33. It may be possible to measure fair value less costs of disposal, even if there is not a quoted price in an active market for an identical asset. However, sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable[2] estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.

34. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

35. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 85–90), unless either:

    (a) The asset's fair value less costs of disposal is higher than its carrying amount; or

    (b) The asset is a part of a cash-generating unit but is capable of generating cash flows individually, in which case the asset's value in use can be estimated to be close to its fair value less costs of disposal and the asset's fair value less costs of disposal can be measured.

36. In some cases, estimates, averages and computational shortcuts may provide reasonable approximations of the detailed computations for determining fair value less costs of disposal or value in use.

Measuring the Recoverable Amount of an Intangible Asset with an Indefinite Useful Life

37. Paragraph 23 requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

    (a) If the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;

    (b) The most recent recoverable amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

    (c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the asset's carrying amount is remote.

[2] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Fair Value less Costs of Disposal

38. [Deleted]

39. [Deleted]

40. [Deleted]

41. Costs of disposal, other than those that have been recognized as liabilities, are deducted in measuring fair value less costs of disposal. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits and costs associated with reducing or reorganizing an operation following the disposal of an asset are not direct incremental costs to dispose of the asset.

42. Sometimes, the disposal of an asset would require the buyer to assume a liability, and only a single fair value less costs of disposal is available for both the asset and the liability. Paragraph 89 explains how to deal with such cases.

Value in Use

43. **The following elements shall be reflected in the calculation of an asset's value in use:**

    (a) **An estimate of the future cash flows the entity expects to derive from the asset;**

    (b) **Expectations about possible variations in the amount or timing of those future cash flows;**

    (c) **The time value of money, represented by the current market risk-free rate of interest;**

    (d) **The price for bearing the uncertainty inherent in the asset; and**

    (e) **Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.**

44. Estimating the value in use of an asset involves the following steps:

    (a) Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

    (b) Applying the appropriate discount rate to those future cash flows.

45. The elements identified in paragraph 43(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes. The Application Guidance provides additional guidance on the use of present value techniques in measuring an asset's value in use.

Basis for Estimates of Future Cash Flows

46. **In measuring value in use, an entity shall:**

    (a) **Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;**

    (b) **Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance.**

Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and

(c) **Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.**

47. Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided that the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

48. Detailed, explicit, and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable, and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

49. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts, using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.

50. When conditions are favorable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.

51. In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

Composition of Estimates of Future Cash Flows

52. **Estimates of future cash flows shall include:**

(a) **Projections of cash inflows from the continuing use of the asset;**

(b) **Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and**

(c) **Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.**

53. Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).

54. Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.

55. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.

56. To avoid double-counting, estimates of future cash flows do not include:

(a) Cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and

(b) Cash outflows that relate to obligations that have been recognized as liabilities (for example, payables, pensions, or provisions).

57. **Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:**

(a) **A future restructuring to which an entity is not yet committed; or**

(b) **Improving or enhancing the asset's performance.**

58. Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:

(a) Future cash outflows or related cost savings (for example, reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or

(b) Future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.

59. A restructuring is a program that is (a) planned and controlled by management, and (b) materially changes either the scope of the entity's activities or the manner in which those activities are carried out. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, contains guidance clarifying when an entity is committed to a restructuring.

60. When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:

(a) Its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and

(b) Its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with IPSAS 19.

61. Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits or service potential associated with the expected cash outflow.

62. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits or service potential expected to arise from the asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is

considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

63. **Estimates of future cash flows shall not include:**

(a) **Cash inflows or outflows from financing activities; or**

(b) **Income tax receipts or payments.**

64. Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also determined on a pre-tax basis.

65. **The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.**

66. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs of disposal, except that, in estimating those net cash flows:

(a) An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used; and

(b) The entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

66A. Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:

(a) Additional value derived from the grouping of assets (such as the creation of a portfolio of investment property in different locations);

(b) Synergies between the asset being measured and other assets;

(c) Legal rights or legal restrictions that are specific only to the current owner of the asset; and

(d) Tax benefits or tax burdens that are specific to the current owner of the asset.

Foreign Currency Future Cash Flows

67. Future cash flows are estimated in the currency in which they will be generated, and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount Rate

68. **The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:**

(a) **The time value of money, represented by the current risk-free rate of interest; and**

(b) **The risks specific to the asset for which the future cash flow estimates have not been adjusted.**

69. A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing, and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

70. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The Application Guidance provides additional guidance on estimating the discount rate in such circumstances.

Recognizing and Measuring an Impairment Loss

71. Paragraphs 72–75 set out the requirements for recognizing and measuring impairment losses for an individual asset other than goodwill. The recognition and measurement of impairment losses for cash-generating units and goodwill are dealt with in paragraphs 76–97H.

72. **If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.**

73. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the current value model in IPSAS 31 and IPSAS 45). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45.

74. **When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another Standard.**

75. **After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Cash-Generating Units and Goodwill

76. Paragraphs 77–97H set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognizing impairment losses for, cash-generating units and goodwill.

Identifying the Cash-Generating Unit to which an Asset Belongs

77. **If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).**

78. The recoverable amount of an individual asset cannot be determined if:

(a) The asset's value in use cannot be estimated to be close to its fair value less costs of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

(b) The asset does not generate cash inflows that are largely independent of those from other assets and is not capable of generating cash flows individually.

In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

79. As defined in paragraph 13, an asset's cash-generating unit is the smallest group of assets that (a) includes the asset, and (b) generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgment. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

80. Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors, including how management (a) monitors the entity's operations (such as by product lines, businesses, individual locations, districts, or regional areas), or (b) makes decisions about continuing or disposing of the entity's assets and operations. The Implementation Guidance gives an example of the identification of a cash-generating unit.

81. **If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:**

(a) **The future cash inflows used to determine the asset's or cash-generating unit's value in use; and**

(b) **The future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.**

82. Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

83. **Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.**

84. If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 120 requires disclosures about the cash-generating unit if an impairment loss is recognized or reversed for the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

85. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs of disposal and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 31–70 to an asset is read as a reference to a cash-generating unit.

86. **The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.**

87. The carrying amount of a cash-generating unit:

(a) Includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and

(b) Does not include the carrying amount of any recognized liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because fair value less costs of disposal and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognized (see paragraphs 41 and 56).

88. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate, or are used to generate, the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. The Illustrated Decision Tree provides a flow diagram illustrating the treatment of individual assets that are part of cash-generating units. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill. Paragraphs 90A–90O explain how to deal with these assets in testing a cash-generating unit for impairment.

89. It may be necessary to consider some recognized liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the price to sell the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

90. For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of (a) assets that are not part of the cash-generating unit (for example, receivables or other financial assets), or (b) liabilities that have been recognized (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Goodwill

Allocating goodwill to cash-generating units

90A. **For the purpose of impairment testing, goodwill acquired in an acquisition shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units or groups of units. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net**

cash outflows of the acquirer, the acquirer shall be considered as the cash-generating unit. Except where goodwill relates to the acquisition of a non-cash-generating operation, each unit or group of units to which the goodwill is so allocated shall:

(a) **Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and**

(b) **Not be larger than a segment as defined by paragraph 9 of IPSAS 18, *Segment Reporting.***

90B. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. Goodwill does not generate cash flows, or reductions in net cash outflows, independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, references in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to the acquirer.

90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

90E. **If the initial allocation of goodwill acquired in an acquisition cannot be completed before the end of the annual period in which the acquisition is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**

90F. In accordance with IPSAS 40*, Public Sector Combinations*, if the initial accounting for an acquisition can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

(a) Accounts for the acquisition using those provisional values; and

(b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the acquisition before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. **If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:**

(a) **Included in the carrying amount of the operation when determining the gain or loss on disposal; and**

(b) **Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.**

90H. **If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.**

Testing cash-generating units with goodwill for impairment

90I. **When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 91.**

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. **A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph 91.**

Timing of impairment tests

90L. **The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an acquisition during the current annual period, that unit shall be tested for impairment before the end of the current annual period.**

90M. **If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.**

90N. At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

90O. **The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:**

(a) **The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;**

(b) **The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and**

(c) **Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.**

Impairment Loss for a Cash-Generating Unit

91. **An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units) in the following order:**

(a) **First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and**

(b) **Then, to the other assets of the unit (group of units) on a pro rata basis, based on the carrying amount of each asset in the unit.**

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

92. **In allocating an impairment loss in accordance with paragraph 91, an entity shall not reduce the carrying amount of an asset below the highest of:**

(a) **Its fair value less costs of disposal (if measurable);**

(b) **Its value in use (if determinable); and**

(c) **Zero.**

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit (group of units).

93. **Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset shall be allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset shall reflect any impairment losses at the reporting date that have been determined under the requirements of IPSAS 21.**

94. If the recoverable amount of an individual asset cannot be determined (see paragraph 78):

(a) An impairment loss is recognized for the asset if its carrying amount is greater than the higher of its fair value less costs of disposal and the results of the allocation procedures described in paragraphs 91–93; and

(b) No impairment loss is recognized for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs of disposal is less than its carrying amount.

95. In some cases, non-cash-generating assets contribute to cash-generating units. This Standard requires that, where a cash-generating unit subject to an impairment test contains a non-cash-generating asset, that non-cash-generating asset is tested for impairment in accordance with the requirements of IPSAS 21. A proportion of the carrying amount of that non-cash-generating asset, following that impairment test, is included in the carrying amount of the cash-generating unit. The proportion reflects the extent to which the service potential of the non-cash-generating asset contributes to the cash-generating unit. The allocation of any impairment loss for the cash-generating unit is then made on a pro rata basis to all cash-generating assets in the cash-generating unit, subject to the limits in paragraph 92. The non-cash-generating asset is not subject to a further impairment loss beyond that which has been determined in accordance with IPSAS 21.

96. [Deleted]

97. **After the requirements in paragraphs 91–93 have been applied, a liability shall be recognized for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another standard.**

Impairment testing cash-generating units with goodwill and non-controlling interests

97A. In accordance with IPSAS 40, the acquirer measures and recognizes goodwill as of the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with IPSAS 40, which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquired operation measured in accordance with IPSAS 40; and

(iii) In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS 40.

Allocation of goodwill

97B. Paragraph 90A of this Standard requires goodwill acquired in an acquisition to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an acquisition will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

97C. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.

97D. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

97E. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

97F. If a controlled entity, or part of a controlled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97G. If a controlled entity, or part of a controlled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:

(a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and

(b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97H. If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the controlling entity's consolidated financial statements (see paragraph 97D), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the controlling entity is recognized as a goodwill impairment loss.

Reversing an Impairment Loss

98. Paragraphs 99–105 set out the requirements for reversing an impairment loss recognized for an asset or a cash-generating unit in prior periods. These requirements use the term "an asset," but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110 and 111, and for goodwill in paragraphs 111A and 111B.

99. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.**

100. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

(a) **There are observable indications that the asset's value has increased significantly during the period;**

(b) **Significant changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;**

(c) **Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially;**

Internal sources of information

(d) **Significant changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs;**

(da) **A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and**

(e) **Evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.**

101. Indications of a potential decrease in an impairment loss in paragraph 100 mainly mirror the indications of a potential impairment loss in paragraph 25.

102. If there is an indication that an impairment loss recognized for an asset other than goodwill may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the standard applicable to the asset, even if no impairment loss is reversed for the asset.

103. **An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 106, be increased to its recoverable amount. That increase is a reversal of an impairment loss.**

104. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognized an impairment loss for that asset. An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

(a) A change in the basis for recoverable amount (i.e., whether recoverable amount is based on fair value less costs of disposal or value in use);

(b) If recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows, or in the discount rate; or

(c) If recoverable amount was based on fair value less costs of disposal, a change in estimate of the components of fair value less costs of disposal.

105. An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the unwinding of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an Impairment Loss for an Individual Asset or Class of Asset

106. **The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.**

107. Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the standard applicable to the asset.

108. **A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the current value model in IPSAS 31 and IPSAS 45). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 45. However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or IPSAS 45.

109. **After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Reversing an Impairment Loss for a Cash-Generating Unit

110. **A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized in accordance with paragraph 108. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.**

111. **In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 110, the carrying amount of an asset shall not be increased above the lower of:**

(a) **Its recoverable amount (if determinable); and**

(b) **The carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior periods.**

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

Reversing an impairment loss for goodwill

111A. **An impairment loss recognized for goodwill shall not be reversed in a subsequent period.**

111B. IPSAS 31 prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

Redesignation of Assets

112. **The redesignation of an asset from a cash-generating asset to a non-cash- generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. At the subsequent reporting date after a redesignation, an entity shall consider, as a minimum, the listed indications in paragraph 25.**

113. There are circumstances in which public sector entities may decide that it is appropriate to redesignate a cash-generating asset as a non-cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from an industrial estate at commercial rates, and excess capacity has been used to treat effluent from a social housing unit, for which no charge is made. The industrial estate has recently closed and, in future, the site will be developed for social housing purposes. In light of the closure of the industrial estate, the public sector entity decides to redesignate the effluent treatment plant as a non-cash-generating asset.

Disclosure

114. **An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.**

115. **An entity shall disclose the following for each class of assets:**

(a) **The amount of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included.**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed.**

(c) **The amount of impairment losses on revalued assets recognized directly in revaluation surplus during the period; and**

(d) **The amount of reversals of impairment losses on revalued assets recognized directly in revaluation surplus during the period.**

116. In some cases it may be not be clear whether the primary objective of holding an asset is to generate a commercial return. That judgment is needed to determine whether to apply this Standard or IPSAS 21. Paragraph 114 requires the disclosure of the criteria used for distinguishing cash-generating and non-cash-generating assets.

117. A class of assets is a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment at the beginning and end of the period, as required by IPSAS 45.

119. **An entity that reports segment information in accordance with IPSAS 18, *Segment Reporting*, shall disclose the following for each reported segment based on an entity's reporting format:**

(a) **The amount of impairment losses recognized in surplus or deficit during the period; and**

(b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period.**

120. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period for a cash-generating asset (including goodwill) or a cash-generating unit:**

(a) **The events and circumstances that led to the recognition or reversal of the impairment loss;**

(b) **The amount of the impairment loss recognized or reversed;**

(c) **For a cash-generating asset:**

(i) **The nature of the asset; and**

(ii) **If the entity reports segment information in accordance with IPSAS 18, the reported segment to which the asset belongs, based on the entity's reporting format.**

(d) **For a cash-generating unit:**

(i) **A description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reported segment);**

(ii) **The amount of the impairment loss recognized or reversed by class of assets, and, if the entity reports segment information in accordance with IPSAS 18, by reported segment based on the entity's reporting format; and**

(iii) **If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.**

(e) **Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use;**

(f) **If the recoverable amount is fair value less costs of disposal, the entity shall disclose the following information:**

(i) **The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement of the asset (cash-generating unit) is categorized in its entirety (without taking into account whether the 'costs of disposal' are observable);**

(ii) **For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) used to measure fair value less costs of disposal. If there has been a change in measurement technique, the entity shall disclose that change and the reason(s) for making it;**

(iii) **For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique; and**

(g) **If the recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.**

121. **An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognized during the period for which no information is disclosed in accordance with paragraph 120:**

(a) **The main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses; and**

(b) **The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**

122. An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period. However, paragraph 123 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

122A. **If, in accordance with paragraph 90E, any portion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.**

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Intangible Assets with Indefinite Useful Lives

123. **An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**

(a) **The carrying amount of goodwill allocated to the unit (group of units);**

(b) **The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);**

(c) **The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs of disposal);**

(d) **If the unit's (group of units') recoverable amount is based on value in use:**

(i) **Each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;**

(ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;**

(iii) **The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;**

(iv) **The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated; and**

(v) **The discount rate(s) applied to the cash flow projections.**

(e) **If the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the measurement technique(s) used to measure fair value less costs of disposal. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information:**

(i) **Each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and**

(ii) **A description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**

(iia) **The level of the fair value hierarchy (see IPSAS 46) within which the fair value measurement is categorized in its entirety (without giving regard to the observability of 'costs of disposal').**

(iib) **If there has been a change in measurement technique, the change and the reason(s) for making it.**

If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:

(iii) **The period over which management has projected cash flows;**

(iv) **The growth rate used to extrapolate cash flow projections; and**

(v) **The discount rate(s) applied to the cash flow projections.**

(f) **If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's carrying amount to exceed its recoverable amount:**

(i) **The amount by which the unit's (group of units') recoverable amount would exceed its carrying amount;**

(ii) **The value assigned to the key assumption; and**

(iii) **The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.**

124. **If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (group of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (group of units). In addition, if the recoverable amounts of any of those units (group of units) are based on the same key assumption(s), and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:**

(a) **The aggregate carrying amount of goodwill allocated to those units (groups of units);**

(b) **The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);**

(c) **A description of the key assumption(s);**

(d) **A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and if not, how and why they differ from past experience or external sources of information;**

(e) **If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:**

(i) **The amount by which the aggregate of the units' (groups of units') recoverable amounts would exceed the aggregate of their carrying amounts;**

(ii) **The value(s) assigned to the key assumption(s); and**

(iii) **The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.**

125. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (groups of units) may, in accordance with paragraph 37 or 90O, be carried forward and used in the impairment test for that unit (groups of units) in the current period, provided specified criteria are met. When this is the case, the information for that unit (groups of units) that is incorporated into the disclosures required by paragraphs 123 and 124 relate to the carried forward calculation of recoverable amount.

Effective Date

126. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2009. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2009, it shall disclose that fact.**

126A. **Paragraphs 25 and 100 were amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged if an entity also applies the amendments to paragraphs 12, 13, 29, 40, 57, 59, 62, 62A, 62B, 63, 66, and 101A of IPSAS 16 at the same time. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact.**

126B. **Paragraph 123 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact.**

126C. **IPSAS 31 amended paragraph 2(h). An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 31 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.**

126D. **Paragraph 127 was amended by IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier**

application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.

126E. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, Joint Arrangements issued in January 2015, amended paragraph 12. An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.**

126F. **Paragraphs 2 and 8 were amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

126G. **Paragraphs 3 and 4 were deleted and paragraphs 5 and 18 were amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

126H. ***Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) amended paragraphs 2, 73, 108, 115 and 124, deleted paragraphs 6 and 11, and added paragraphs 73A and 108A. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies those amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

126I. **Paragraph 2 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

126J. **Paragraphs 2, 23, 71, 76, 88, 91, 92, 98–100, 102, 103, 106–108, 110, 111, 120, 122 and 123–125 were amended, paragraphs 18A, 20A, 90A–90O, 97A–97H, 111A, 111B and 122A added and paragraphs 7 and 96 deleted by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

126K. **Paragraphs 2, 9 and 12 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

126L. **Paragraphs 73A and 108A were amended by *Improvements to IPSAS*, 2019, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

126M. **Paragraphs 2, 8 and 25 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

126N. **Paragraphs 73, 73A, 108, 108A, and 118 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

126O. **Paragraphs 8, 10, 13, 25, 31-36, 41, 42, 66, 78, 85, 87, 89, 92, 94, 100, 104, 120, and 123 and the related heading of paragraph 38 were amended, paragraphs 10A and 66A were added, and paragraphs 38–40 were deleted by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

126P. **Paragraphs 2, 8, and 29 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

127. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 26.

Using Present Value Techniques to Measure Value in Use

This guidance uses the term "asset," but equally applies to a group of assets forming a cash-generating unit.

The Components of a Present Value Measurement

AG1. The following elements together capture the economic differences between cash-generating assets:

(a) An estimate of the future cash flow, or, in more complex cases, series of future cash flows that the entity expects to derive from the asset;

(b) Expectations about possible variations in the amount or timing of those cash flows;

(c) The time value of money, represented by the current market risk-free rate of interest;

(d) The price for bearing the uncertainty inherent in the asset; and

(e) Other, sometimes unidentifiable, factors (such as illiquidity) that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

AG2. This appendix contrasts two approaches to computing present value, either of which may be used to estimate the value in use of an asset, depending on the circumstances. Under the traditional approach, adjustments for factors (b)–(e) described in paragraph AG1 are embedded in the discount rate. Under the expected cash flow approach, factors (b), (d) and (e) cause adjustments in arriving at risk-adjusted expected cash flows. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes.

General Principles

AG3. The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset in question. However, the following general principles govern any application of present value techniques in measuring assets:

(a) Interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double-counted or ignored. For example, a discount rate of 12 percent might be applied to contractual cash flows of a loan receivable. That rate reflects expectations about future defaults from loans with particular characteristics. That same 12 percent rate should not be used to discount expected cash flows, because those cash flows already reflect assumptions about future defaults.

(b) Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.

(c) Estimated cash flows or discount rates should reflect the range of possible outcomes rather than a single most likely minimum or maximum possible amount.

Traditional and Expected Cash Flow Approaches to Present Value

Traditional Approach

AG4. Accounting applications of present value have traditionally used a single set of estimated cash flows and a single discount rate, often described as the rate commensurate with the risk. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. Therefore, the traditional approach places most of the emphasis on selection of the discount rate.

AG5. In some circumstances, such as those in which comparable assets can be observed in the marketplace, a traditional approach is relatively easy to apply. For assets with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets, as in a 12 percent bond.

AG6. However, the traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market for the item or a comparable item exists. A proper search for the rate commensurate with the risk requires analysis of at least two items − an asset that exists in the marketplace and has an observed interest rate and the asset being measured. The appropriate discount rate for the cash flows being measured must be inferred from the observable rate of interest in that other asset. To draw that inference, the characteristics of the other asset's cash flows must be similar to those of the asset being measured. Therefore, the measurer must do the following:

(a) Identify the set of cash flows that will be discounted;

(b) Identify another asset in the marketplace that appears to have similar cash flow characteristics;

(c) Compare the cash flow sets from the two items to ensure that they are similar (for example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?);

(d) Evaluate whether there is an element in one item that is not present in the other (for example, is one less liquid than the other?); and

(e) Evaluate whether both sets of cash flows are likely to behave (i.e., vary) in a similar fashion in changing economic conditions.

Expected Cash Flow Approach

AG7. The expected cash flow approach is, in some situations, a more effective measurement tool than the traditional approach. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most likely cash flow. For example, a cash flow might be CU100[3] CU200, or CU300, with probabilities of 10 percent, 60 percent and 30 percent, respectively. The expected cash flow is CU220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.

AG8. The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of CU1,000 may be received in one year, two years, or three years, with probabilities of 10 percent, 60 percent, and 30 percent, respectively. The example below shows the computation of expected present value in that situation.

[3] In this and other examples monetary amounts are denominated in currency units (CU).

Present value of CU1,000 in 1 year at 5%	CU952.38	
Probability	10 %	CU95.24
Present value of CU1,000 in 2 years at 5.25%	CU902.73	
Probability	60 %	CU541.64
Present value of CU1,000 in 3 years at 5.50%	CU851.61	
Probability	30.%	CU255.48
Expected present value		CU892.36

AG9. The expected present value of CU892.36 differs from the traditional notion of a best estimate of CU902.73 (the 60 percent probability). A traditional present value computation applied to this example requires a decision about which of the possible timings of cash flows to use and, accordingly, which would not reflect the probabilities of other timings. This is because the discount rate in a traditional present value computation cannot reflect uncertainties in timing.

AG10. The use of probabilities is an essential element of the expected cash flow approach. Some question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph AG6) requires the same estimates and subjectivity without providing the computational transparency of the expected cash flow approach.

AG11. Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:

(a) The estimated amount falls somewhere between CU50 and CU250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is CU150 [(50+250)/2];

(b) The estimated amount falls somewhere between CU50 and CU250, and the most likely amount is CU100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is CU133.33 [(50+100+250)/3]; or

(c) The estimated amount will be CU50 (10 percent probability), CU250 (30 percent probability), or CU100 (60 percent probability). Based on that limited information, the estimated expected cash flow is CU140 [(50 × 0.10)+(250 × 0.30)+(100 × 0.60)].

In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely, or maximum amount taken alone.

AG12. The application of an expected cash flow approach is subject to a cost-benefit constraint. In some cases, an entity may have access to extensive data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring substantial cost. The entity needs to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement.

AG13. Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset with two possible outcomes: a 90 percent probability that the cash flow will be CU10 and a 10 percent probability that the cash flow will

be CU1,000. They observe that the expected cash flow in that example is CU109, and criticize that result as not representing either of the amounts that may ultimately be paid.

AG14. Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Standard is concerned with measuring the recoverable amount of an asset. The recoverable amount of the asset in this example is not likely to be CU10, even though that is the most likely cash flow. This is because a measurement of CU10 does not incorporate the uncertainty of the cash flow in the measurement of the asset. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational entity would sell an asset with these characteristics for CU10.

Discount Rate

AG15. Whichever approach an entity adopts for measuring the value in use of an asset, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

AG16. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The purpose is to estimate, as far as possible, a market assessment of:

(a) The time value of money for the periods until the end of the asset's useful life; and

(b) Factors (b), (d) and (e) described in paragraph AG1, to the extent those factors have not caused adjustments in arriving at estimated cash flows.

AG17. As a starting point in making such an estimate, the entity might take into account the following rates:

(a) The entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;

(b) The entity's incremental borrowing rate; and

(c) Other market borrowing rates.

AG18. However, these rates must be adjusted:

(a) To reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and

(b) To exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration should be given to risks such as country risk, currency risk, and price risk.

AG19. The discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset, because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.

AG20. Paragraph 68 requires the discount rate used to be a pre-tax rate. Therefore, when the basis used to estimate the discount rate is post-tax, that basis is adjusted to reflect a pre-tax rate.

AG21. An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 26.

Development of IPSAS 26 based on the IASB's revised version of IAS 36 issued in 2004

Introduction

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

BC2. The IPSASB issued IPSAS 21, *Impairment of Non-Cash-Generating Assets*, in December 2004. IPSAS 21 prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and establishes how the impairment is recognized and measured. The majority of assets in the public sector are non-cash-generating, and the recognition and measurement requirements developed resulted in a number of differences in IPSAS 21 from International Accounting Standard, IAS 36, *Impairment of Assets.*

Need for this Standard

BC3. When this Standard was issued, IPSAS 21 had referred readers to IAS 36 (a) in order to establish whether cash-generating assets have been impaired, and (b) for accounting for the recognition and measurement of any impairment. There were benefits in incorporating requirements and guidance on the impairment of cash-generating assets in an IPSAS, so that public sector entities do not have to refer to IAS 36 when an entity has cash-generating assets. In addition, there were a number of public sector issues related to impairment. These included:

(a) Whether cash-generating property, plant, and equipment carried in accordance with the revaluation model in IPSAS 17, *Property, Plant, and Equipment* should be within the scope;

(b) Distinguishing cash-generating and non-cash-generating assets;

(c) The redesignation of cash-generating assets to non-cash-generating assets and vice-versa; and

(d) The treatment for impairment purposes of non-cash-generating assets in cash-generating units.

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that the identified relationship still applies for issue (a) above.

Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope

BC4. When this Standard was issued in February 2008, the scope of IPSAS 21 had excluded non-cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 had stated that the IPSASB was of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17 would be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date, and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore had considered whether a similar scope exclusion should be included in this Standard.

BC5. The IPSASB had acknowledged that property, plant, and equipment held on the revaluation model were within the scope of IAS 36, and had considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB had noted that in IAS 36, in cases where the fair value of an item of property, plant and equipment is its

market value, the maximum amount of an impairment loss was the disposal costs. In the Basis for Conclusions for IPSAS 21, it was stated that "the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset." The IPSASB had considered that disposal costs are also unlikely to be material for cash-generating assets. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

BC6. For specialized cash-generating assets where fair value has not been derived from market value, IAS 36 requires recoverability to be estimated through the value in use. Because value in use is based on cash flow projection, it might be materially greater or lower than carrying amount. This analysis is also relevant in the public sector. However, it is questionable whether public sector entities hold specialized assets that meet the definition of a cash-generating asset in this Standard.

BC7. When this Standard was issued, the IPSASB had been of the view that it would be onerous to impose a requirement to test for impairment in addition to the then existing requirement in IPSAS 17, i.e., that assets would be revalued with sufficient regularity to ensure that they were carried at an amount that would not be materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB had concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that were regularly revalued to fair value would also be excluded from the scope. In developing IPSAS 45, the IPSASB noted that current operational value can be applied instead of fair value and the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

***Impairment of Revalued Assets* (Amendments to IPSAS 21 and IPSAS 26)**

BC7A. As a consequence of requests from jurisdictions that apply IPSAS, in 2015 the IPSASB revisited the original decision to exclude revalued property, plant, and equipment and intangible assets from the scope of IPSAS 26.

BC7B. When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 was sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as was required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31.

BC7C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they were accounted for in a similar manner. Paragraph 51 of IPSAS 17 required the entire class of assets to be revalued if an item of property, plant, and equipment belonging to that class was revalued. Therefore, if impairment losses and reversals of impairment losses were interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing IPSAS 45, the IPSASB noted that this reasoning and consideration are still applicable.

BC7D. The IPSASB also considered it important that users are provided with the quantitative and qualitative information on impairments specified in paragraphs 120 and 121 of IPSAS 26,

BC7E. Consistent with IPSAS 21, the IPSASB's objective in clarifying the ambiguity, was to ensure that impairment losses and reversals of impairment losses of a revalued asset did not require an entity to revalue the entire class of assets to which that item belongs in order to recognize an impairment loss in respect of that item.

BC7F. Although including property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 means that an entity is required to assess annually whether there is

any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment. The IPSASB therefore concluded that bringing property, plant, and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 will not be overly onerous for the preparers of financial statements.

BC7G. As a result of these considerations the IPSASB approved ED 57, *Impairment of Revalued Assets*, in September 2015 and published the ED the following month.

Responses to ED 57

BC7H. The majority of respondents to ED 57 supported the proposals and the IPSASB's rationale. The IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17.

BC7I. The IPSASB had acknowledged this view but had considered it inappropriate for two reasons. Firstly, such an approach did not sufficiently address the different methods of determining value in use for non-cash generating assets when evaluating an asset's recoverable service amount. Such methods are the depreciated replacement cost approach, the restoration cost approach and the service-units approach. Secondly, the approach does not provide the information needed for accountability and decision-making purposes by users that is provided by the disclosures in IPSAS 21 and IPSAS 26. The IPSASB had therefore decided to effect the proposals in ED 57 in a final pronouncement.

BC7J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they are conceptually the same. However, there was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference was reflected in paragraph 51A of IPSAS 17 that "impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs." In developing IPSAS 45, the IPSASB noted that this reasoning and consideration are still applicable.

Exclusion of Goodwill from Scope

BC8. IAS 36 contains extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment. In developing IPSAS 26, the IPSASB considered whether goodwill should be within the scope of this Standard. The IPSASB had not yet issued an IPSAS dealing with entity combinations and considered it likely that a number of public sector-specific issues would arise when combinations of public sector entities take place: in particular, whether an acquirer can always be identified in combinations of public sector entities. The IPSASB concluded that goodwill should not be within the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, users were referred to the requirements of the relevant international or national accounting standards dealing with the impairment of goodwill, the allocation of goodwill to cash-generating units, and the testing for impairment of cash-generating units with goodwill.

BC8A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The

IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

BC8B. As a consequence of the IPSASB's decision that goodwill should be considered a cash-generating asset for the purposes of impairment, the IPSASB agreed to incorporate into IPSAS 26 the extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment contained in IAS 36.

Distinguishing Cash-Generating and Non-Cash-Generating Assets

BC9. The IPSASB noted that some assets have both cash-generating and non-cash-generating characteristics. The IPSASB considered whether it should adopt a components-based approach that would identify the cash-generating and non-cash-generating components of assets and subject them to different treatments. The IPSASB rejected such an approach because of cost-benefit considerations. The IPSASB concluded that assets in the public sector are generally non-cash-generating, and that an analysis of their service potential is the preferred basis to determine impairment. This Standard therefore includes a rebuttable presumption at paragraph 18 that assets that are both cash-generating and non-cash-generating should be treated as non-cash-generating assets.

Indications of Impairment: Market Capitalization

BC10. When this Standard was issued, the IPSASB considered whether the indications for impairment of cash-generating assets held by public sector entities – both external sources and internal sources of information – were similar to those in IAS 36. The IPSASB concluded that the indications in IAS 36 were relevant, except for the indication that the carrying amount of the net assets of the entity is more than its market capitalization. When this Standard was issued, the IPSASB was of the view that very few public sector entities that were not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) would issue equity instruments traded in deep markets, and that such an indication will therefore only be relevant on the consolidation of GBEs.

Fair Value less Costs of Sell and Forced Sales

BC11. In commentary on the definition of "fair value less costs to sell," IAS 36 states that "fair value less costs to sell does not reflect a forced sale," but includes a qualification: "unless management is compelled to sell immediately." IPSAS 26 does not include this qualification in paragraph 40 because there are very few circumstances in which public sector entities that are not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) will be forced to sell immediately in order to remain a going concern.

Redesignation of Assets

BC12. Cash-generating assets can become non-cash-generating assets and vice-versa. The IPSASB considered under what circumstances a redesignation of an asset from cash-generating to non-cash-generating and vice-versa should be permitted. The IPSASB concluded that a redesignation can occur only when there is clear evidence that it is appropriate. The IPSASB also concluded that a redesignation by itself does not trigger an impairment test or the reversal of an impairment loss. Instead, at the subsequent reporting date, an entity should evaluate the appropriate indicators following redesignation to determine if a test is needed. These requirements are stated in paragraph 112.

Cash-Generating Units

BC13. As in IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset's cash-generating unit (CGU) will be determined. The CGU is the smallest identifiable group of assets (a) that generates cash inflows from continuing use, and (b) that is largely independent of the cash inflows from other assets or groups of assets. The IPSASB concluded that the notion of a CGU is appropriate for cash-generating assets in a public sector context.

Corporate Assets

BC14. IAS 36 includes requirements related to corporate assets. Corporate assets are defined in IAS 36 as "assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units"—that is, a corporate asset contributes only to CGUs and not to non-cash-generating activities. The IPSASB considered whether this Standard should include requirements for corporate assets as defined in IAS 36.

BC15. The primary purpose of public sector entities that are not [GBEs] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) is not the generation of commercial returns. Therefore, the IPSASB considers that there will be very few occasions in which an asset shared between different activities (such as an administrative building) contributes service potential to CGUs without also contributing service potential to non-cash-generating activities. It was therefore decided that it is not necessary to define, and provide requirements for, corporate assets in this Standard. Paragraph 96 refers entities to the relevant international and national accounting standard dealing with assets that do not generate cash flows independently of other assets and form part of more than one cash-generating unit, but do not contribute service potential to non-cash-generating activities.

Treatment of Non-Cash-Generating Assets in Cash-Generating Units

BC16. There are likely to be a number of cases in which public sector entities hold non-cash-generating assets that contribute service potential to CGUs in addition to non-cash-generating activities. The IPSASB considered the approach to the treatment of such non-cash-generating assets in CGUs. In particular, the IPSASB considered whether it is appropriate to include a proportion of the carrying amount of a non-cash-generating asset, following any impairment test under IPSAS 21, in the carrying amount of the CGU when comparing the carrying amount of that CGU with its recoverable amount.

BC17. The IPSASB concluded that a proportion of the carrying amount of such a non-cash-generating asset should be included in the carrying amount of the CGU. That proportion should be determined on a basis pro rata to the service potential that such an asset contributes to the CGU. If the non-cash-generating asset is ignored, the carrying amount of the CGU may be understated and impairment losses not recognized. However, because any impairment of the non-cash-generating asset will have been determined in accordance with IPSAS 21, the non-cash-generating asset will have been written down to its recoverable service amount. Therefore, no further impairment loss relating to the CGU should be applied to the non-cash-generating asset. Any impairment losses are allocated on a pro rata basis, based on carrying values, to the cash-generating assets in the CGU, subject to the limits in paragraph 92. This approach is reflected in paragraph 95.

Revision of IPSAS 26 as a result of the IASB's *Improvements to IFRS* issued in 2008

BC18. The IPSASB reviewed the revisions to IAS 36 included in the *Improvements to IFRS* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Revision of IPSAS 26 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC19. When IPSAS 26 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

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

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

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

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

BC19A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 26 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC20. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 26 as a result of *Improvements to IPSAS*, 2019

BC21. When this Standard was issued, the IPSASB had noted that the reference to “class of assets” in paragraphs 73A and 108A created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31, *Intangible Assets* and class of assets in the scope of IPSAS 17. In developing IPSAS 45, the IPSASB noted that this guidance is still applicable.

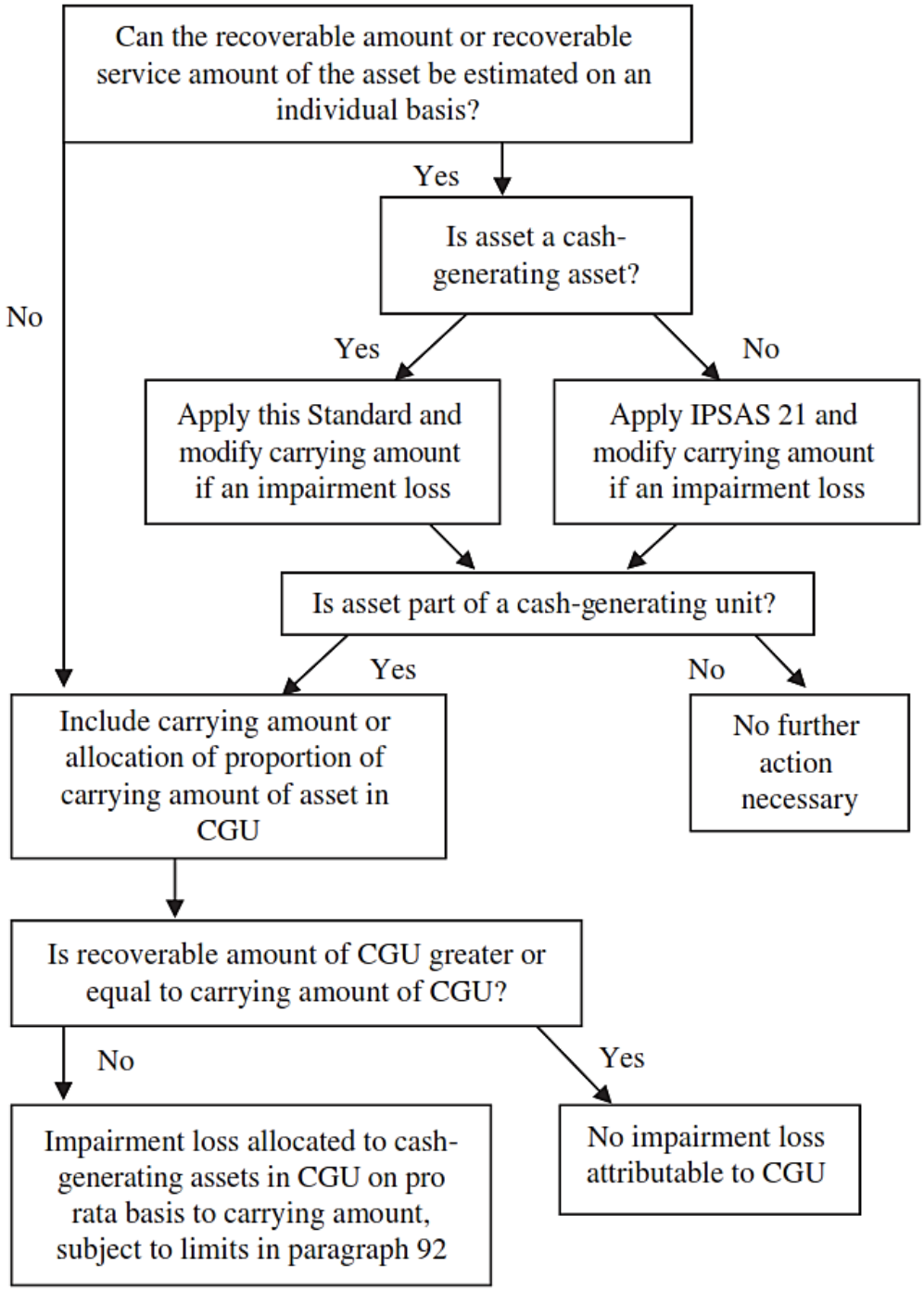
Revision of IPSAS 26 as a result of IPSAS 46, *Measurement*

BC22. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 26 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Illustrative Decision Tree

This decision tree accompanies, but is not part of, IPSAS 26.

For simplicity and clarity, this flowchart assumes that any asset that is part of a CGU also contributes service potential to non-cash-generating activities. When an asset only contributes service potential to one or more CGUs, but not to non-cash-generating activities, entities refer to the relevant international and national accounting standard dealing with such circumstances in accordance with paragraph 96.



Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26.

Most assets held by public sector entities are non-cash-generating assets, and accounting for their impairment should be undertaken in accordance with IPSAS 21.

In those circumstances when an asset held by a public sector entity is held with the objective of generating a commercial return, the provisions of this Standard should be followed. Most cash-generating assets will arise in business activities run by commercial public sector entities. An example is a seed-producing unit run on a commercial basis that is part of an agricultural research entity.

For the purposes of all these examples, a public sector entity undertakes commercial activities.

Identification of Cash-Generating Units

The purpose of this example is:

(a) To indicate how cash-generating units are identified in various situations; and

(b) To highlight certain factors that an entity may consider in identifying the cash-generating unit to which an asset belongs.

A—Reduction in Demand Related to a Single-Product Unit

Background

IG1. A government has an electricity-generating utility. The utility has two turbine generators in a single electric plant. In the current period, a major manufacturing plant in the area closed and demand for power was significantly reduced. In response, the government shut down one of the generators.

Analysis

IG2. The individual turbine generators do not generate cash flows in and of themselves. Therefore the cash-generating unit to be used in determining an impairment is the electric plant as a whole.

B—Government Air Freight Unit that Leases an Aircraft

Background

IG3. M is the air freight unit of a government entity. It operates three aircraft, a landing strip, and a number of hangers and other buildings, including maintenance and fueling facilities. Because of declining demand for its services, M leases one aircraft for a five-year period to a private sector entity. Under the terms of the lease, M is required to allow the lessee to use the landing strip and is responsible for all maintenance to the aircraft.

Analysis

IG4. Because of the terms of the lease, the leased aircraft cannot be considered to generate cash inflows that are largely independent of the cash inflows from M as a whole. Therefore, it is likely that the cash-generating unit to which the aircraft belongs is M as a whole.

C—Crushing Plant in Waste Disposal Entity

Background

IG5. A municipality runs a waste disposal entity that owns a crushing plant to support its waste disposal activities. The crushing plant could be sold only for scrap value, and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the waste disposal entity.

Analysis

IG6. It is not possible to estimate the recoverable amount of the crushing plant, because its value in use cannot be determined and is probably different from the scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the crushing plant belongs, i.e., the waste disposal entity as a whole.

D—Routes Provided by Bus Company

Background

IG7. A state bus company provides services under contract with a municipality that specifies minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Analysis

IG8. Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit is the bus company as a whole.

Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

IG9. At the beginning of 20X0, Government R, through its Department of Power, puts into service a power plant that it constructed for CU250 million.

IG10. At the beginning of 20X4, power plants constructed by competitors are put into service, resulting in a reduction in the revenues produced by the power plant of Government R. Reductions in revenue result because the volume of electricity generated has decreased from expectations, and also because the prices for electricity and stand-by capacity have decreased from expectations.

IG11. The reduction in revenue is evidence that the economic performance of the asset is worse than expected. Consequently, Government R is required to determine the asset's recoverable amount.

IG12. Government R uses straight-line depreciation over a 20-year life for the power plant and anticipates no residual value.

IG13. It is not possible to determine the fair value less costs of disposal of the power plant. Therefore, recoverability can only be determined through the calculation of value in use. To determine the value in use for the power plant (see Schedule 1), Government R:

(a) Prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management;

(b) Estimates subsequent cash flows (years 20Y0–20Y9) based on declining growth rates ranging from -6 percent per annum to -3 percent per annum; and

(c) Select a 6 percent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to Government R's power plant.

Recognition and Measurement of Impairment Loss

IG14. The recoverable amount of Government R's power plant is CU121.1 million.

IG15. Government R compares the recoverable amount of the power plant to its carrying amount (see Schedule 2).

IG16. Because the carrying amount exceeds the recoverable amount by CU78.9 million, an impairment loss of CU78.9 million is recognized immediately in surplus or deficit.

Schedule 1—Calculation of the Value in Use of Government R's Power Plant at the End of 20X4

Year	Long-term growth rates	Future cash flows	Present value factor at 6% discount rate[§]	Discounted future cash flows (CUm)
20X5 (n=1)		16.8 [*]	0.94340	15.8
20X6		14.4 [*]	0.89000	12.8
20X7		14.2 [*]	0.83962	11.9
20X8		14.1 [*]	0.79209	11.2
20X9		13.9 [*]	0.74726	10.4
20Y0	(6%)	13.1 [†]	0.70496	9.2
20Y1	(6%)	12.3 [†]	0.66506	8.2
20Y2	(6%)	11.6 [†]	0.62741	7.3
20Y3	(5%)	11.0 [†]	0.59190	6.5
20Y4	(5%)	10.5 [†]	0.55839	5.9
20Y5	(5%)	10.0 [†]	0.52679	5.3
20Y6	(4%)	9.6 [†]	0.49697	4.8
20Y7	(4%)	9.2 [†]	0.46884	4.3
20Y8	(3%)	8.9 [†]	0.44230	3.9
20Y9	(3%)	8.6 [†]	0.41727	3.6
Value in use				**121.1**

[*] Based on management's best estimate of net cash flow projections.

[†] Based on an extrapolation from preceding year cash flow using declining growth rates.

[§] The present value factor is calculated as $k = 1/1(+a)^n$, where a = discount rate and n = period discount.

Schedule 2—Calculation of the Impairment Loss for Government R's Power Plant at the Beginning of 20X5

Beginning of 20X5	Total CU(m)
Historical cost	250.0
Accumulated depreciation (20X4)	(50.0)
Carrying amount	200.0
Carrying amount after impairment loss	121.1
Impairment loss	(78.9)

Reversal of an Impairment Loss

This Example relies on the data for Government R as presented in IG9 to IG16, with supplementary information provided in this Example. In this Example, tax effects are ignored.

Background

IG17. By 20X6 some competitors have closed down power plants and this has meant that the negative impact on the revenues of Government R has been less than projected at the end of 2004. This favorable change requires the government to re-estimate the recoverable amount of the power plant.

IG18. Calculations similar to those in Example 2 show that the recoverable amount of the power plant is now CU157.7 million.

Reversal of Impairment Loss

IG19. Government R compares the recoverable amount and the net carrying amount of the power plant and reverses part of the impairment loss previously recognized at Example 2.

Non-Cash-Generating Asset that Contributes to a Cash-Generating Unit

Background

IG20. A public hospital owns and operates a Magnetic Resonance Imaging (MRI) scanner that is primarily used by wards for non-fee paying patients. However, 20% of its usage is for treatment of fee-paying patients. The fee-paying patients are accommodated and treated in a separate building that includes wards, an operating theatre, and numerous pieces of capital equipment used solely for fee-paying patients. At December 31, 20X6, the carrying value of the building and capital equipment is CU30,000. It is not possible to estimate the recoverable amount of the building and the items of capital equipment on an individual basis. Therefore, the building and capital equipment are considered as a cash-generating unit (CGU). At January 1, 20X6 the MRI scanner had a carrying value of CU3,000. A depreciation expense of CU600 is recognized for the MRI scanner at December 31, 20X6. Because there have been significant technological advances in the field, the MRI scanner is tested for impairment at December 31, 20X6 and an impairment loss of CU400 is determined, so that the carrying value of the MRI scanner at December 31, 20X6 is CU2,000.

Determination of Recoverable Amount of Cash-Generating Unit

IG21. During the year there had been a significant reduction in the number of fee-paying patients at the hospital. The CGU is therefore tested for impairment. The recoverable amount of the CGU, based on its value in use, is assessed as CU27,400. 20% of the revised carrying value of the MRI scanner (CU400) is allocated to the

carrying amount of the CGU before determining the impairment loss (CU3,000). The impairment loss is allocated to the building and capital equipment pro rata based on their carrying values. No further impairment loss is allocated to the MRI scanner, as an impairment loss has already been determined under the requirements of IPSAS 21, *Impairment of Non-Cash-Generating Assets.*

Inclusion of Recognized Liabilities in Calculation of Recoverable Amount of a Cash-Generating Unit

Background

IG22. A municipality operates a waste disposal site and is required to restore the site on completion of its operations. The cost of restoration includes the replacement of the topsoil, which must be removed before waste disposal operations commence. A provision for the costs to replace the top soil was recognized as soon as the top soil was removed. The amount provided was recognized as part of the cost of the site and is being depreciated over the site's useful life. The carrying amount of the provision for restoration costs is CU500, which is equal to the present value of the restoration costs.

Impairment Testing

IG23. The municipality is testing the site for impairment. The cash-generating unit is the site as a whole. The government has received various offers to buy the site at a price of around CU800. This price reflects the fact that the buyer will assume the obligation to restore the topsoil. Disposal costs for the site are negligible. The value in use of the site is approximately CU1,200, excluding restoration costs. The carrying amount of the waste disposal site is CU1,000.

IG24. The cash-generating unit's fair value less costs of disposal is CU800. This amount includes restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs, and is estimated to be CU700 (CU1,200 minus CU500). The carrying amount of the cash-generating unit is CU500, which is the carrying amount of the site (CU1,000) minus the carrying amount of the provision for restoration costs (CU500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

Including Goodwill in the Carrying Amount of an Operation on Disposal

Background

IG24A. A municipality sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

Accounting Treatment

IG24B. Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 percent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Reallocation of Goodwill when a Cash-Generating Unit is Restructured

Background

IG24C. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Accounting Treatment

IG24D. Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Accounting Treatment of an Individual Asset in a Cash-Generating Unit dependent on whether Recoverable Amount can be Determined

Background

IG25. A holding tank at a water purification plant has suffered physical damage but is still working, although not as well as before it was damaged. The holding tank's fair value less costs of disposal is less than its carrying amount. The holding tank does not generate independent cash inflows. The smallest identifiable group of assets that includes the holding tank and generates cash inflows that are largely independent of the cash inflows from other assets is the plant to which the holding tank belongs. The recoverable amount of the plant shows that the plant taken as a whole is not impaired.

Recoverable Amount of Holding Tank Cannot be Determined

IG26. Assumption 1: Budgets/forecasts approved by management reflect no commitment of management to replace the holding tank.

IG27. The recoverable amount of the holding tank alone cannot be estimated because the holding tank's value in use:

(a) May differ from its fair value less costs of disposal; and

(b) Can be determined only for the cash-generating unit to which the holding tank belongs (the water purification plant).

The plant is not impaired. Therefore, no impairment loss is recognized for the holding tank. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the holding tank. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the holding tank or the pattern in which economic benefits are expected to be consumed by the entity.

Recoverable Amount of Holding Tank Can be Determined

IG28. Assumption 2: Budgets/forecasts approved by management reflect a commitment of management to replace the holding tank and sell it in the near future. Cash flows from continuing use of the holding tank until its disposal are estimated to be negligible.

IG29. The holding tank's value in use can be estimated to be close to its fair value less costs of disposal. Therefore, the recoverable amount of the holding tank can be determined, and no consideration is given to the cash-generating unit to which the holding tank belongs (i.e., the production line). Because the holding tank's fair value less costs of disposal below its carrying amount, an impairment loss is recognized for the holding tank.

COMPARISON WITH IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRS* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs of disposal. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the redesignation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.
- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms "revenue" and "statement of financial performance." The equivalent terms in IAS 36 are "income" and "income statement."

IPSAS 27, *AGRICULTURE*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 41, *Agriculture* published by the International Accounting Standards Board (IASB®). Extracts from IAS 41 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 27, *AGRICULTURE*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 27, *Agriculture* was issued in December 2009.

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

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46. *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 27

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	*Improvements to IPSAS* April 2016
3	Amended	*Improvements to IPSAS* April 2016 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 51 January 2026
4	Amended	IPSAS 45 May 2023
5	Amended	*Improvements to IPSAS* April 2016
6	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
7	Deleted	*The Applicability of IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
8	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	*Improvements to IPSAS* April 2016
9A	New	*Improvements to IPSAS* April 2016
9B	New	*Improvements to IPSAS* April 2016
9C	New	*Improvements to IPSAS* April 2016
13	Amended	*Improvements to IPSAS* April 2016
14	Deleted	IPSAS 46 May 2023
19	Amended	IPSAS 46 May 2023
20	Amended	IPSAS 46 May 2023
21	Deleted	IPSAS 46 May 2023
22	Deleted	IPSAS 46 May 2023
23	Deleted	IPSAS 46 May 2023
24	Deleted	IPSAS 46 May 2023
25	Deleted	IPSAS 46 May 2023
26	Amended	IPSAS 46 May 2023
27	Deleted	IPSAS 46 May 2023
28	Amended	*Improvements to IPSAS* April 2016
29	Amended	IPSAS 46 May 2023
34	Amended	*Improvements to IPSAS* April 2016 IPSAS 44 May 2022 IPSAS 46 May 2023
37	Amended	IPSAS 45 May 2023
40	Amended	*Improvements to IPSAS* April 2016
45	Deleted	IPSAS 46 May 2023
46	Deleted	IPSAS 46 May 2023
Heading above paragraph 46A	New	IPSAS 46 May 2023
46A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
46B	New	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
46C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
46D	New	IPSAS 46 May 2023
46E	New	IPSAS 46 May 2023
46F	New	IPSAS 46 May 2023
48	Amended	*Improvements to IPSAS* April 2016 IPSAS 40 January 2017 IPSAS 44 May 2022
55	Deleted	IPSAS 33 January 2015
56A	New	IPSAS 33 January 2015
56B	New	*Improvements to IPSAS* April 2016
56C	New	*Improvements to IPSAS* April 2016
56D	New	*Improvements to IPSAS* April 2016
56E	New	*The Applicability of IPSAS* April 2016
56F	New	IPSAS 40 January 2017
56G	New	IPSAS 43 January 2022
56H	New	IPSAS 44 May 2022
56I	New	IPSAS 45 May 2023
56J	New	IPSAS 46 May 2023
56K	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
56L	New	IPSAS 51 January 2026
57	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025

IPSAS 27, *AGRICULTURE*

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International Public Sector Accounting Standard 27, *Agriculture* is set out in paragraphs 1–57. All the paragraphs have equal authority. IPSAS 27 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment and disclosures for agricultural activity.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard for the following when they relate to agricultural activity:**

   (a) **Biological assets, except for bearer plants; and**

   (b) **Agricultural produce at the point of harvest.**

3. This Standard does not apply to:

   (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and IPSAS 45, *Property, Plant, and Equipment*);

   (b) Bearer plants related to agricultural activity (see IPSAS 45). However, this Standard applies to the produce on those bearer plants.

   (c) Intangible assets related to agricultural activity (see IPSAS 31, *Intangible Assets*);

   (d) Biological assets held for the provision or supply of services;

   (e) Right-of-use assets arising from a lease of land related to agricultural activity (see IPSAS 43, *Leases*); and

   (f) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

4. Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other IPSAS should be considered in determining the appropriate accounting (e.g., IPSAS 12, *Inventories* and IPSAS 45).

5. This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, IPSAS 12, or another applicable Standard, is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.

6. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation forest	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil Palms	Picked fruit	Palm Oil
Rubber trees	Harvested latex	Rubber products
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IPSAS 45. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IPSAS 27.		

7. [Deleted]

8. [Deleted]

Definitions

Agriculture-related Definitions

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

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for:

- **Sale;**
- **Distribution at no charge or for a nominal charge; or**
- **Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.**

Agricultural produce is the harvested produce of the entity's biological assets.

A bearer plant is a living plant that:

(a) **Is used in the production and supply of agricultural produce;**

(b) **Is expected to bear produce for more than one period; and**

(c) **Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.**

A biological asset is a living animal or plant.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.

A group of biological assets is an aggregation of similar living animals or plants.

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

9A. The following are not bearer plants:

(a) Plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(b) Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated for their fruit and their lumber); and

(c) Annual crops (for example, maize and wheat).

9B. When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

9C. Produce growing on bearer plants is a biological asset.

10. Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:

(a) *Capability to change.* Living animals and plants are capable of biological transformation;

(b) *Management of change.* Management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

(c) *Measurement of change.* The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

11. Biological transformation results in the following types of outcomes:

(a) Asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or

(b) Production of agricultural produce such as latex, tea leaf, wool, and milk.

General Definitions

12. **Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.**

Recognition and Measurement

13. **An entity shall recognize a biological asset or agricultural produce when and only when:**

(a) **The entity controls the asset as a result of past events;**

(b) **It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and**

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

14. [Deleted]

15. In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits or service potential are normally assessed by measuring the significant physical attributes.

16. **A biological asset shall be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case described in paragraph 34 where the fair value cannot be measured reliably.**

17. **Where an entity acquires a biological asset through a non-exchange transaction, the biological asset is measured on initial recognition and at each reporting date in accordance with paragraph 16.**

18. **Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IPSAS 12, or another applicable Standard.**

19. The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.

20. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural produce in an exchange transaction may be an onerous contract, as defined in IPSAS 19*, Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 applies to onerous contracts.

21. [Deleted]

22. [Deleted]

23. [Deleted]

24. [Deleted]

25. [Deleted]

26. An entity does not include any cash flows for financing the assets, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).

27. [Deleted]

28. Cost may sometimes approximate fair value, particularly when:

(a) Little biological transformation has taken place since initial cost incurrence (for example, for seedlings planted immediately prior to reporting date or newly acquired livestock); or

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

(b) The impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).

29. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to measure the fair value of the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.

Gains and Losses

30. **A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises.**

31. A loss may arise on initial recognition of a biological asset, because costs to sell are deducted in determining fair value less costs to sell of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.

32. **A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises.**

33. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting.

Inability to Measure Fair Value Reliably

34. **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available, and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations,* it is presumed that fair value can be measured reliably.**

35. The presumption in paragraph 34 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.

36. In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This Standard reflects the view that the fair value of agricultural produce at the point of harvest can always be measured reliably.

37. In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers IPSAS 12, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, IPSAS 26, *Impairment of Cash-Generating Assets*, and IPSAS 45.

Disclosure

General

38. **An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.**

39. **An entity shall provide a description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.**

40. Consumable biological assets are those that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge as biological assets. Examples of consumable biological assets are animals and plants for one-time use, such as livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, produce on a bearer plant and trees being grown for lumber. Bearer biological assets are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity. Bearer biological assets are not agricultural produce but, rather, are held to bear produce. Examples of types of animals that are bearer biological assets include breeding stocks (including fish and poultry), livestock from which milk is produced, and sheep or other animals used for wool production. Examples of types of plants that are bearer biological assets include trees from which fruit is harvested, vines and shrubs cultivated for the harvest of fruits, nuts, sap, resin, bark and leaf products.

41. The disclosures required by paragraph 39 would take the form of a quantified description. The quantified description may be accompanied by a narrative description.

42. In making the disclosures required by paragraph 39, an entity is also encouraged to distinguish between mature and immature biological assets, as appropriate. These distinctions provide information that may be helpful in assessing the timing of future cash flows and service potential. An entity discloses the basis for making any such distinctions.

43. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets).

44. **If not disclosed elsewhere in information published with the financial statements, an entity shall describe:**

    (a) **The nature of its activities involving each group of biological assets; and**

    (b) **Non-financial measures or estimates of the physical quantities of:**

        (i) Each group of the entity's biological assets at the end of the period; and

        (ii) Output of agricultural produce during the period.

45. [Deleted]

46. [Deleted]

Current Value Measurement

46A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

    (a) **For agricultural assets that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

46B. To meet the objectives in paragraph 46A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 46A, an entity shall disclose additional information necessary to meet those objectives.

46C. To meet the objectives in paragraph 46A, an entity shall disclose, at a minimum, the following information for each class of agricultural assets (see paragraph 46D for information on determining appropriate classes of agricultural assets) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) The fair value measurement at the end of the reporting period;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(d) For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change

in unrealized gains or losses relating to those agricultural assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

46D. An entity shall determine the appropriate disaggregation of agricultural assets on the basis of the following:

(a) The nature, characteristics and risks of the agricultural assets; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of agricultural assets for which disclosures about fair value measurements should be provided requires judgment. Agricultural assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an agricultural asset, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

46E. For each class of agricultural assets not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 46C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 46C(c). For such agricultural assets, an entity does not need to provide the other disclosures required by this Standard.

46F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

47. **An entity shall disclose:**

(a) **The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;**

(b) **The nature and extent of restrictions on the entity's use or capacity to sell biological assets;**

(c) **The amount of commitments for the development or acquisition of biological assets; and**

(d) **Financial risk management strategies related to agricultural activity.**

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

(a) **The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;**

(b) **Increases due to purchases;**

(c) **Increases due to assets acquired through a non-exchange transaction;**

(d) **Decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44;**

(e) **Decreases due to distributions at no charge or for a nominal charge;**

(f) **Decreases due to harvest;**

(g) **Increases resulting from public sector combinations;**

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

(i) **Other changes.**

49. The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in surplus or deficit due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

50. transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits or service potential. A change in fair value of a biological asset due to harvesting is also a physical change.

51. Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of revenue or expense, the nature and amount of that item are disclosed in accordance with IPSAS 1. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably

52. **If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 34) at the end of the period, the entity shall disclose for such biological assets:**

(a) **A description of the biological assets;**

(b) **An explanation of why fair value cannot be measured reliably;**

(c) **If possible, the range of estimates within which fair value is highly likely to lie;**

(d) **The depreciation method used;**

(e) **The useful lives or the depreciation rates used; and**

(f) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.**

53. **If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 34), an entity shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation required by paragraph 48 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets:**

(a) **Impairment losses;**

(b) **Reversals of impairment losses; and**

(c) **Depreciation.**

54. **If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:**

(a) **A description of the biological assets;**

(b) **An explanation of why fair value has become reliably measurable; and**

(c) **The effect of the change.**

Transitional Provision

55. [Deleted]

Effective Date

56. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2011. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2011, it shall disclose that fact.**

56A. **Paragraphs 55 and 57 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

56B. **Paragraphs 34 and 48 were amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

56C. **Paragraphs 2, 3, 5, 6, 9, 28 and 40 were amended and paragraphs 9A, 9B and 9C added by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply those amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.***

56D. **In the reporting period when the amendments to IPSAS 17 and IPSAS 27 from part IV *of Improvements to IPSAS 2015* is first applied an entity need not disclose the quantitative information required by paragraph 33(f) of IPSAS 3 for the current period. However, an entity shall present the quantitative information required by paragraph 33(f) of IPSAS 3 for each prior period presented.**

56E. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

56F. **Paragraph 48 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall apply IPSAS 40 at the same time.**

56G. **Paragraph 3 was amended by IPSAS 43 issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

56H. **Paragraphs 34 and 48 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

56I. **Paragraphs 3, 4, 6, and 37 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

56J. **Paragraphs 19, 20, 26, 29 and 34 were amended, paragraphs 46A–46F were added, and paragraphs 14, 21–25, 27, 45 and 46 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

56K. **Paragraphs 46A, and 46C(a)-46C(g) are amended by Part of 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

56L. **Paragraph 3(f) was added by IPSAS 51, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

57. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 27.

Introduction

BC1. The IPSASB's IFRS Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to develop accrual-based IPSAS that are convergent with IFRS issued by the IASB where appropriate for public sector entities.

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

Biological Assets Held for the Provision or Supply of Services

BC3. The IPSASB acknowledged that in the public sector biological assets are often held for the provision or supply of services. Examples of such biological assets include horses and dogs used for policing purposes and plants and trees in parks and gardens operated for recreational purposes. The IPSASB concluded that such biological assets are not held for use in an agricultural activity because they are not routinely managed for the purpose of measuring and monitoring the change in quality or quantity brought about by biological transformation or harvest, as described in paragraph 10. In order to clarify that such biological assets are not dealt with in this Standard the IPSASB decided to include a scope exclusion in paragraph 3(d) stating that the Standard does not apply to biological assets held for the provision or supply of services. Paragraph 4 provides examples of such scope exclusions.

Definition of Agricultural Activity

BC4. In certain jurisdictions biological assets that are part of agricultural activity may be sold or distributed to other public sector entities, non-governmental organizations or other entities at no charge or for a nominal charge. While IAS 41, *Agriculture*, from which this Standard is drawn, deals with commercial agricultural activity, the IPSASB concluded that biological assets held for distribution at no charge or for a nominal charge should be within the definition of agricultural activity, because such transactions are common in the public sector. The IPSASB therefore modified the definition from that in IAS 41 to include references to biological assets held for distribution at no charge or for a nominal charge.

Government Grants

BC5. IAS 41 specifies requirements and guidance for accounting for government grants related to biological assets that differ from the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. IPSAS 27 does not include requirements and guidance for government grants, because at the time this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* provided requirements and guidance related to government grants in non-exchange transactions. The IPSASB did not consider that accounting for government grants related to biological assets should vary from the requirements of IPSAS 23.

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

BC6. An entity may acquire a biological asset or agricultural produce in a non-exchange transaction. In accordance with this Standard, these assets would be measured at fair value less costs to sell. At the time this Standard was developed, IPSAS 23 prescribes that assets acquired through a non-exchange transaction should be

measured initially at fair value as at the date of acquisition. As a result of the different measurement requirements, the IPSASB considered the appropriate measurement basis for biological assets acquired in a non-exchange transaction.

BC7. When the IPSASB debated various approaches to measuring biological assets and agricultural produce acquired through a non-exchange transaction, it considered, in particular, the following three approaches:

(a) Approach 1: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using IPSAS 23 (i.e., exclude all biological assets and agricultural produce acquired in a non-exchange transaction from the measurement requirements of this Standard);

(b) Approach 2: Measure all biological assets and agricultural produce acquired in a non-exchange transaction using this Standard (i.e., exclude all biological assets and agricultural produce from the measurement requirements of IPSAS 23); and

(c) Approach 3: Use both IPSAS 23 and this Standard to measure biological assets and agricultural produce acquired in a non-exchange transaction.

BC8. The IPSASB rejected approach 1 because biological assets and agricultural produce acquired in exchange and non-exchange transactions would be measured differently. The IPSASB agreed that there is no reason to measure biological assets and agricultural produce acquired in a non-exchange transaction differently from those acquired in an exchange transaction because the assets are the same.

BC9. When this Standard was issued, in analyzing approach 3, the IPSASB had considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. At the time this Standard was developed, IPSAS 23.13 stated that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs were included in the amount recognized as an asset, in accordance with IPSAS 17." In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this guidance is still applicable. This implied that for other assets, an entity considered the measurement requirements of other IPSAS as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

BC10. An additional attribute relevant to the measurement of biological assets is costs to sell. The IPSASB therefore concluded that in accordance with approach 3, an entity considered the requirements of both IPSAS 23 and this Standard in measuring biological assets and agricultural produce acquired in a non-exchange transaction at fair value less costs to sell at their initial recognition. The IPSASB noted that this is the same outcome as under approach 2.

Biological Assets and Agricultural Produce to be Distributed at No Charge or for a Nominal Charge

BC11. IAS 41 addresses only biological assets and agricultural produce that will be sold. In the public sector, such assets may be managed with the objective of distributing them at no charge or for a nominal charge. Some respondents to Exposure Draft 36, *Agriculture* expressed a view that a distinction should be made between the recognition and measurement of biological assets held for sale in an exchange transaction, and biological assets held for distribution at no charge or for a nominal charge. The principle was established in IPSAS 12, *Inventories*, that inventories held for distribution at no charge or for a nominal charge should be measured at the lower of cost and current replacement cost. Cost is not an available option in this Standard unless the exception in paragraph 34 applies. Current replacement cost is defined as the cost an entity would incur to acquire the asset at the reporting date, which is an approximation of fair value less costs to sell. Accordingly, the approach in Exposure Draft 36 was not changed.

BC12. Some respondents to the Exposure Draft also questioned whether gains and losses arising from use of fair value measurement should be reported in the statement of financial performance during the transformation

process. The IPSASB is of the view that the gains and losses arising from fair value measurement should be reported in the statement of financial performance because such reporting provides useful accountability information during the biological transformation process. Entities may decide to make additional disclosures to explain the impact of these reported fair value changes.

Disclosure

BC13. The IPSASB considered whether any further disclosures were justified to address public sector specific issues and added disclosure requirements to:

(a) Distinguish between consumable and bearer biological assets. This distinction is necessary because the Government Finance Statistics (GFS) Manual 2001 (GFSM 2001) classifies consumable assets as inventory, while this Standard classifies them as biological assets. The distinction allows for a better reconciliation between an entity's financial statements prepared under IPSAS and statistical measures.

(b) Distinguish between biological assets held for sale and those held for distribution at no charge or for a nominal charge. The IPSASB believes this distinction is necessary to permit users to determine the unrealized gains and losses on biological assets held for distribution at no charge or for a nominal charge.

(c) Show biological assets acquired through non-exchange transactions and biological assets held for distribution at no charge or for a nominal charge in its reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. This disclosure is required to provide appropriate information about non-exchange transactions, which are included in the scope of this Standard.

(d) Disclose separately the changes in fair value less costs to sell as a result of non-exchange transactions for biological assets held for sale and for biological assets held for distribution at no charge or for a nominal charge. It is important that information is provided on the amount of gains and losses attributable to biological assets intended for distribution at no charge or for a nominal charge to assist users of financial statements in assessing the cost of government programs.

(e) Describe the nature and extent of restrictions imposed on the entity's use or capacity to sell biological assets, such as the total and restricted amounts of such assets. The IPSASB is of the view that such disclosure provides useful information about the entity's ability to sell agricultural produce at fair value, and thus about its measurement.

Transitional Provisions

BC14. IAS 41 does not contain transitional provisions for first-time adoption of the accrual basis of accounting. When issued, this Standard contained such provisions to assist entities in applying this Standard when first adopting the accrual basis of accounting. These provisions have since been replaced by the guidance in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards.*

Revision of IPSAS 27 as a result of Part II of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC15. When IPSAS 27 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders had indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector might not be completed within one year because of the levels of approval required. This had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB had noted that, under IFRS 5, non-

current assets held for sale are not depreciated. The IPSASB had concerns that not depreciating assets for an extended period of time might be inappropriate.

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

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

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

BC15A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS 5. As a result, all the relevant references have been added.

Revision of IPSAS 27 as a result of IASB's *Narrow Scope Amendments* issued in June 2014

BC16. The IPSASB reviewed the revisions to IAS 41 included in the narrow scope amendments titled Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) issued by the IASB in June 2014 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 27 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC17. The IPSASB *issued The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 27 as a result of IPSAS 46, *Measurement*

BC18. IPSAS 46, *Measurement*, issued in May 2023, provides generic guidance on the measurement of fair value, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement

in IPSAS 27 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

Revision of IPSAS 27 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC19. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC20. In August 2024, the IPSASB published ED 90, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC21. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC22. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 27.

Extracts from statements of financial performance and statements of financial position are provided to show the effects of the transactions described below. These extracts do not necessarily conform to all the disclosure and presentation requirements of other Standards.

The first example illustrates how the disclosure requirements of this Standard might be put into practice for a dairy farming entity. This Standard encourages the separation of the change in fair value less costs to sell of an entity's biological assets into physical change and price change. That separation is reflected in the first example. The second example illustrates how to separate physical change and price change.

Disclosure Requirements

Statement of Financial Position

Entity XYZ	Notes	December 31, 20X8	December 31, 20X7
		Currency Unit (CU)	CU
ASSETS			
Current assets			
Cash		10,000	10,000
Receivables		88,000	65,000
Inventories		82,950	70,650
Total current assets		**180,950**	**145,650**
Non-current assets			
Bearer biological assets			
Dairy livestock – immature[2]		52,060	47,730
Dairy livestock – mature[2]		372,990	411,840
Subtotal – bearer biological assets	3	425,050	459,570
Property, plant and equipment		1,462,650	1,409,800
Total non-current assets		**1,887,700**	**1,869,370**
Total assets		**2,068,650**	**2,015,020**
LIABILITIES			
Current liabilities			
Payables		122,628	150,020
Total current liabilities		**122,628**	**150,020**
NET ASSETS/EQUITY			
Contributed capital		1,000,000	1,000,000
Accumulated surplus		946,022	865,000
Total net assets/equity		**1,946,022**	**1,865,000**
Total net assets/equity and liabilities		**2,068,650**	**2,015,020**

[2] An entity is required to provide a description of biological assets that distinguishes between consumable and bearer biological assets and between those held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. An entity is also encouraged, but not required, to distinguish between mature and immature biological assets, as appropriate. An entity discloses the basis for making any such distinctions. This example shows the disclosure of bearer biological assets on the face of the statement of financial position. Information to meet other disclosure requirements is disclosed in the notes to the financial statements, as permitted.

Statement of Financial Performance

		CU
Entity XYZ	**Notes**	**Year ended December 31, 20X8**
Fair value of milk produced		518,240
Gains arising from changes in fair value less costs to sell of dairy livestock held for sale	3	39,930
		558,170
Inventories used		(137,523)
Staff costs		(127,283)
Depreciation expense		(15,250)
Other operating expenses		(197,092)
		(477,148)
Surplus for the period		**81,022**

Statement of Changes in Net Assets/Equity

	Year ended December 31, 20X8		
	CU	CU	CU
	Contributed Capital	**Accumulated Surplus**	**Total**
Balance at January 1, 20X8	1,000,000	865,000	**1,865,000**
Surplus for the period	-	81,022	**81,022**
Balance at December 31, 20X8	**1,000,000**	**946,022**	**1,946,022**

Cash Flow Statement[3]

Entity XYZ	**Year ended**
	December 31, 20X8
	CU
Cash flows from operating activities	
Cash receipts from sales of milk	498,027
Cash receipts from sales of livestock	97,913
Cash paid for supplies and to employees	(504,025)
Cash paid for purchases of livestock	(23,815)
Net cash from operating activities	**68,100**
Cash flows from investing activities	
Purchase of property, plant and equipment	(68,100)
Net cash used in investing activities	**(68,100)**
Net increase in cash	**0**
Cash at beginning of the year	**10,000**
Cash at end of the year	**10,000**

Notes

1. **Operations and Principal Activities**

Entity XYZ ("the Entity") is engaged in milk production. At December 31, 20X8, the Entity held 419 cows able to produce milk (mature bearer assets) and 137 heifers being raised to produce milk in the future (immature bearer assets). The Entity produced 157,584kg of milk with a fair value less costs to sell of CU518,240 (the fair value of this agricultural produce is determined at the time of milking) in the year ended December 31, 20X8. The Entity does not own any consumable biological assets.

2. **Accounting Policies**

Livestock and Milk

Livestock are measured at their fair value less costs to sell. The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit. Milk is initially measured at its fair value less costs to sell at the time of milking. The fair value of milk is determined based on market prices in the local area.

[3] This statement of cash flows reports cash flows from operating activities using the direct method. IPSAS 2, "Cash Flow Statements" requires that an entity reports cash flows from operating activities using either the direct method or the indirect method. IPSAS 2 encourages use of the direct method.

3. **Biological Assets**

	20X8
Reconciliation of Carrying Amounts of Dairy Livestock	**CU**
Carrying amount at January 1, 20X8	**459,570**
Increases due to purchases	26,250
Gain arising from changes in fair value less costs to sell attributable to physical changes[4]	15,350
Gain arising from changes in fair value less costs to sell attributable to price changes[5]	24,580
Decreases due to sales	(100,700)
Carrying amount at December 31, 20X8	**425,050**

4. **Financial Rish Management Strategies**

The Entity is exposed to financial risks arising from changes in milk prices. The Entity does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in milk prices. The Entity reviews its outlook for milk prices regularly in considering the need for active financial risk management.

Physical Change and Price Change

The following example illustrates how to separate physical change and price change. Separating the change in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

A herd of ten 2 year old animals was held at January 1, 20X8. One animal aged 2.5 years was purchased on July 1, 20X8 for CU108, and one animal was born on July 1, 20X8. No animals were sold or disposed of during the period. Per-unit fair values less costs to sell were as follows:

	CU	CU
2 year old animal at January 1, 20X8	100	
Newborn animal at July 1, 20X8	70	
2.5 year old animal at July 1, 20X8	108	
Newborn animal at December 31, 20X8	72	
0.5 year old animal at December 31, 20X8	80	
2 year old animal at December 31, 20X8	105	
2.5 year old animal at December 31, 20X8	111	
3 year old animal at December 31, 20X8	120	

[4] Separating the increase in fair value less costs to sell between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by this Standard.

[5] See footnote 4.

Fair value less costs to sell of herd at January 1, 20X8 (10 x 100)		1,000
Purchase on July 1, 20X8 (1 x 108)		108
Increase in fair value less costs to sell due to price change		
10 × (105 – 100)	50	
1 × (111 – 108)	3	
1 × (72 – 70)	2	55
Increase in fair value less costs to sell due to physical change:		
10 × (120 – 105)	150	
1 × (120 – 111)	9	
1 × (80 – 72)	8	
1 × 70	70	237
Fair value less costs to sell of herd at December 31, 20X8		
11 × 120	1,320	
1 × 80	80	1,400

COMPARISON WITH IAS 41

IPSAS 27, *Agriculture* is drawn primarily from IAS 41, *Agriculture* (2001), as amended up to December 31, 2008. The main differences between IPSAS 27 and IAS 41 are as follows:

- The definition of "agricultural activity" includes transactions for the distribution of biological assets at no charge or for a nominal charge. IAS 41 does not deal with such transactions.
- The scope section clarifies that biological assets held for the provision or supply of services are not addressed in this Standard. IAS 41 does not include such a clarification.
- IAS 41 includes requirements for government grants relating to biological assets measured at fair value less costs to sell. IPSAS 27 does not include requirements and guidance for government grants, because IPSAS 47, *Revenue* provides requirements and guidance related to government grants.
- IPSAS 27 contains requirements for the measurement at initial recognition, and at each reporting date, of biological assets acquired through a non-exchange transaction.
- This Standard contains an additional disclosure requirement for biological assets for which the entity's use or capacity to sell are subject to restrictions.
- This Standard contains a requirement to distinguish between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge. Such disclosures would take the form of a quantified description that may be accompanied by a narrative description. IAS 41 encourages, but does not require, entities to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets, or between mature and immature biological assets, as appropriate.
- This Standard contains transitional provisions on the first-time adoption of accrual accounting. IAS 41 does not include such transitional provisions.
- IPSAS 27 uses different terminology, in certain instances, from IAS 41. The most significant examples are the use of the terms future economic benefits and service potential, surplus or deficit, and statement of financial performance in IPSAS 27. The equivalent terms in IAS 41 are future economic benefits, profit or loss, and statement of comprehensive income.

IPSAS 28, *FINANCIAL INSTRUMENTS: PRESENTATION*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 32, *Financial Instruments: Presentation* and International Financial Reporting Interpretations Committee (IFRIC®) Interpretation 2 (IFRIC 2), *Members' Shares in Co-operative Entities and Similar Instruments* published by the International Accounting Standards Board (IASB®). Extracts from IAS 32 and IFRIC 2 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 28, *FINANCIAL INSTRUMENTS: PRESENTATION*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 28, *Financial Instruments: Presentation* was issued in January 2010.

Since then, IPSAS 28 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2014* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 28

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	IPSAS 41 August 2018
3	Amended	IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016 IPSAS 41 August 2018
4	Amended	IPSAS 41 August 2018
7	Deleted	*The Applicability of IPSAS* April 2016
8	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
10	Amended	IPSAS 41 August 2018
14	Amended	IPSAS 41 August 2018
28	Amended	IPSAS 41 August 2018
36	Amended	IPSAS 41 August 2018
40	Amended	*Improvements to IPSAS* January 2015
40A	New	*Improvements to IPSAS* January 2015
42	Amended	*Improvements to IPSAS* January 2015
44	Amended	*Improvements to IPSAS* January 2015
47	Amended	IPSAS 41 August 2018
48	Amended	IPSAS 41 August 2018
56	Deleted	IPSAS 33 January 2015
57	Deleted	IPSAS 33 January 2015
58	Deleted	IPSAS 33 January 2015
60A	New	*Improvements to IPSAS* January 2015
60B	New	IPSAS 33 January 2015
60C	New	IPSAS 35 January 2015 IPSAS 37 January 2015
60D	New	*The Applicability of IPSAS* April 2016
60E	New	IPSAS 39 July 2016
60F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
60G	New	IPSAS 42 January 2019
60H	New	IPSAS 43 January 2022
60I	New	IPSAS 46 May 2023
60J	New	IPSAS 47 May 2023
61	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
AG2	Amended	IPSAS 41 August 2018
AG16	Amended	IPSAS 43 January 2022
AG17	Amended	IPSAS 43 January 2022
AG21	Amended	IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
AG23	Amended	IPSAS 42 January 2019
AG46	Amended	IPSAS 47 May 2023
AG53	Amended	IPSAS 35 January 2015
AG55	Amended	IPSAS 41 August 2018
AG56	Amended	IPSAS 46 May 2023
AG63	Deleted	IPSAS 41 August 2018
Heading above paragraph AG63A	New	IPSAS 41 August 2018
AG63A	New	IPSAS 41 August 2018
AG63B	New	IPSAS 41 August 2018
AG63C	New	IPSAS 41 August 2018
AG63D	New	IPSAS 41 August 2018
Heading above paragraph AG63E	New	IPSAS 41 August 2018
AG63E	New	IPSAS 41 August 2018
AG63F	New	IPSAS 41 August 2018
B19	Amended	IPSAS 41 August 2018
B21	Amended	IPSAS 41 August 2018
IE1	Amended	IPSAS 41 August 2018
IE5	Amended	IPSAS 41 August 2018

IPSAS 28, *FINANCIAL INSTRUMENTS: PRESENTATION*

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International Public Sector Accounting Standard 28*, Financial Instruments: Presentation*, is set out in paragraphs 1–62. All the paragraphs have equal authority. IPSAS 28 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends or similar distributions, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

2. The principles in this Standard complement the principles for recognizing and measuring financial assets and financial liabilities in IPSAS 41*, Financial Instruments*, and for disclosing information about them in IPSAS 30, *Financial Instruments: Disclosures.*

Scope (see also paragraphs AG3–AG9)

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:**

   (a) **Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS 35, *Consolidated Financial Statements*, IPSAS 34, *Separate Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35, or IPSAS 36 require or permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 41; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures.**

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

   (c) **Obligations arising from insurance contracts. However, this Standard applies to:**

      (i) **Derivatives that are embedded in insurance contracts if IPSAS 41 requires the entity to account for them separately; and**

      (ii) **Financial guarantee contracts, if the issuer applies IPSAS 41 in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply that standard in recognizing and measuring them.**

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

   (d) **Financial instruments that are within the scope of the international or national accounting standard dealing with insurance contracts because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 13–37 and AG49–AG60 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see IPSAS 41).**

   (e) **Financial instruments, contracts and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payments applies, except for:**

      (i) **Contracts within the scope of paragraphs 4–6 of this Standard, to which this Standard applies; or**

(ii) **Paragraphs 38 and 39 of this Standard, which shall be applied to treasury shares purchased, sold, issued, or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.**

4. **This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale, or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through surplus or deficit in accordance with paragraph 6 of IPSAS 41.**

5. There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

(a) When the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;

(b) When the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);

(c) When, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

(d) When the non-financial item that is the subject of the contract is readily convertible to cash.

A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirements, and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 4 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirement, and accordingly, whether they are within the scope of this Standard.

6. A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 5(a) or (d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirements.

7. [Deleted]

8. [Deleted]

Definitions (see also paragraphs AG10–AG48)

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is:

(a) **Cash;**

(b) **An equity instrument of another entity;**

(c) **A contractual right:**

(i) **To receive cash or another financial asset from another entity; or**

(ii) **To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or**

(d) **A contract that will or may be settled in the entity's own equity instruments and is:**

(i) **A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or**

(ii) **A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.**

A financial liability is any liability that is:

(a) **A contractual obligation:**

(i) **To deliver cash or another financial asset to another entity; or**

(ii) **To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or**

(b) **A contract that will or may be settled in the entity's own equity instruments and is:**

(i) **A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or**

(ii) **A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.**

As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 15 and 16 or paragraphs 17 and 18.

10. The following terms are defined in paragraph 9 of IPSAS 41 or paragraph 10 of IPSAS 29, *Financial Instruments: Recognition and Measurement*, and are used in this Standard with the meaning specified in those Standards.

- Amortized cost of a financial asset or financial liability;
- Derecognition;
- Derivative;
- Effective interest method;
- Financial liability at fair value through surplus or deficit;
- Financial guarantee contract;
- Firm commitment;
- Forecast transaction;
- Hedge effectiveness;
- Hedged item;
- Hedging instrument;
- Held for trading;
- Regular way purchase or sale; and
- Transaction costs.

11. In this Standard, “contract” and “contractual” refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.

12. In this Standard, “entity” includes public sector entities, individuals, partnerships, incorporated bodies and trusts.

Presentation

Liabilities and Net Assets/Equity (see also paragraphs AG49–AG54)

13. **The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.**

14. When an issuer applies the definitions in paragraph 9 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

(i) To deliver cash or another financial asset to another entity; or

(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.

(b) If the instrument will or may be settled in the issuer’s own equity instruments, it is:

(i) A non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

(ii) A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 15 and 16 or paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraph 15 and 16 or paragraphs 17 and 18.

Puttable Instruments

15. A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:

(a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:

(i) Dividing the entity's net assets on liquidation into units of equal amount; and

(ii) Multiplying that amount by the number of the units held by the financial instrument holder.

(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:

(i) Has no priority over other claims to the assets of the entity on liquidation; and

(ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

(c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.

(d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments as set out in subparagraph (b) of the definition of a financial liability.

(e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the surplus or deficit, the change in the recognized net assets or the change in the fair

value of the recognized and unrecognized net assets of the entity over the life of the instrument (excluding any effects of the instrument).

16. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:

(a) Total cash flows based substantially on the surplus or deficit, the change in the recognized net assets, or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract); and

(b) The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 15 that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the puttable instrument as an equity instrument.

Instruments, or Components of Instruments, that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation

17. Some financial instruments include a contractual obligation for the issuing entity to deliver to another entity a pro rata share of its net assets only on liquidation. The obligation arises because liquidation either is certain to occur and outside the control of the entity (e.g., a limited life entity) or is uncertain to occur but is at the option of the instrument holder. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:

(a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:

(i) Dividing the net assets of the entity on liquidation into units of equal amount; and

(ii) Multiplying that amount by the number of the units held by the financial instrument holder.

(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:

(i) Has no priority over other claims to the assets of the entity on liquidation; and

(ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

(c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments must have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation.

18. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:

(a) Total cash flows based substantially on the surplus or deficit, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract); and

(b) The effect of substantially restricting or fixing the residual return to the instrument holders.

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 17 that have contractual terms and conditions that are similar to the

contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the instrument as an equity instrument.

Reclassification of Puttable Instruments and Instruments that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation

19. An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 from the date when the instrument has all the features and meets the conditions set out in those paragraphs. An entity shall reclassify a financial instrument from the date when the instrument ceases to have all the features or meet all the conditions set out in those paragraphs. For example, if an entity redeems all its issued non-puttable instruments and any puttable instruments that remain outstanding have all of the features and meet all the conditions in paragraphs 15 and 16, the entity shall reclassify the puttable instruments as equity instruments from the date when it redeems the non-puttable instruments.

20. An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 19:

    (a) It shall reclassify an equity instrument as a financial liability from the date when the instrument ceases to have all of the features or meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18. The financial liability shall be measured at the instrument's fair value at the date of reclassification. The entity shall recognize in net assets/equity any difference between the carrying value of the equity instrument and the fair value of the financial liability at the date of reclassification.

    (b) It shall reclassify a financial liability as an equity instrument from the date when the instrument has all of the features and meets the conditions set out in paragraphs 15 and 16 or paragraphs 17 and 18. An equity instrument shall be measured at the carrying value of the financial liability at the date of reclassification.

No Contractual Obligation to Deliver Cash or Another Financial Asset (paragraph 14(a))

21. With the exception of the circumstances described in paragraphs 15 and 16 or paragraphs 17 and 18, a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavorable to the issuer. Although the holder of an equity instrument may be entitled to receive a pro rata share of any dividends or similar distributions declared, or distributions of the net assets/equity, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.

22. The substance of a financial instrument, rather than its legal form, governs its classification on the entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity instruments but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example:

    (a) A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

    (b) A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined

on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. For example, open-ended mutual funds, unit trusts, partnerships and some co-operative entities may provide their unitholders or members with a right to redeem their interests in the issuer at any time for cash, which results in the unitholders' or members' interests being classified as financial liabilities, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. However, classification as a financial liability does not preclude the use of descriptors such as "net asset value attributable to unitholders" and "change in net asset value attributable to unitholders" on the face of the financial statements of an entity that has no contributed net assets/equity (such as some mutual funds and unit trusts, see Illustrative Example 7) or the use of additional disclosure to show that total members' interests comprise items such as reserves that meet the definition of net assets/equity and puttable instruments that do not (see Illustrative Example 8).

23. If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. For example:

(a) A restriction on the ability of an entity to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the entity's contractual obligation or the holder's contractual right under the instrument.

(b) A contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.

24. A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example:

(a) A financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.

(b) A financial instrument is a financial liability if it provides that on settlement the entity will deliver either:

(i) Cash or another financial asset; or

(ii) Its own shares whose value is determined to exceed substantially the value of the cash or other financial asset.

Although the entity does not have an explicit contractual obligation to deliver cash or another financial asset, the value of the share settlement alternative is such that the entity will settle in cash. In any event, the holder has in substance been guaranteed receipt of an amount that is at least equal to the cash settlement option (see paragraph 25).

Settlement in the Entity's Own Equity Instruments (paragraph 14(b))

25. A contract is not an equity instrument solely because it may result in the receipt or delivery of the entity's own equity instruments. An entity may have a contractual right or obligation to receive or deliver a number of its

own shares or other equity instruments that varies so that the fair value of the entity's own equity instruments to be received or delivered equals the amount of the contractual right or obligation. Such a contractual right or obligation may be for a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity's own equity instruments (e.g., an interest rate, a commodity price, or a financial instrument price). Two examples are (a) a contract to deliver as many of the entity's own equity instruments as are equal in value to CU100, and (b) a contract to deliver as many of the entity's own equity instruments as are equal in value to the value of 100 barrels of oil. Such a contract is a financial liability of the entity even though the entity must or can settle it by delivering its own equity instruments. It is not an equity instrument because the entity uses a variable number of its own equity instruments as a means to settle the contract. Accordingly, the contract does not evidence a residual interest in the entity's assets after deducting all of its liabilities.

26. Except as stated in paragraph 27, a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument. Changes in the fair value of a contract arising from variations in market interest rates that do not affect the amount of cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to net assets/equity. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from net assets/equity. Changes in the fair value of an equity instrument are not recognized in the financial statements.

27. If the entity's own equity instruments to be received, or delivered, by the entity upon settlement of a contract are puttable financial instruments with all of the features and meeting the conditions described in paragraphs 15 and 16, or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation with all of the features and meeting the conditions described in paragraphs 17 and 18, the contract is a financial asset or a financial liability. This includes a contract that will be settled by the entity receiving or delivering a fixed number of such instruments in exchange for a fixed amount of cash or another financial asset.

28. With the exception of the circumstances described in paragraphs 15 and 16 or paragraphs 17 and 18, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (e.g., for the present value of the forward repurchase price, option exercise price, or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognized initially at the present value of the redemption amount, and is reclassified from net assets/equity. Subsequently, the financial liability is measured in accordance with IPSAS 41. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to net assets/equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (e.g., a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).

29. A contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability. An example is a contract for the entity to deliver 100 of its own equity instruments in return for an amount of cash calculated to equal the value of 100 barrels of oil.

Contingent Settlement Provisions

30. A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate, or taxation requirements, or the issuer's future revenues, surplus or deficit, or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:

    (a) The part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;

    (b) The issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or

    (c) The instrument has all of the features and meets the conditions in paragraphs 15 and 16.

Settlement Options

31. **When a derivative financial instrument gives one party a choice over how it is settled (e.g., the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.**

32. An example of a derivative financial instrument with a settlement option that is a financial liability is a share option that the issuer can decide to settle net in cash or by exchanging its own shares for cash. Similarly, some contracts to buy or sell a non-financial item in exchange for the entity's own equity instruments are within the scope of this Standard because they can be settled either by delivery of the non-financial item or net in cash or another financial instrument (see paragraphs 4–6). Such contracts are financial assets or financial liabilities and not equity instruments.

Compound Financial Instruments (see also paragraphs AG55–AG60 and Illustrative Examples 9–12)

33. **The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net assets/equity component. Such components shall be classified separately as financial liabilities, financial assets, or equity instruments in accordance with paragraph 13.**

34. An entity recognizes separately the components of a financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. For example, a bond or similar instrument convertible by the holder into a fixed number of ordinary shares of the entity is a compound financial instrument. From the perspective of the entity, such an instrument comprises two components: a financial liability (a contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the entity). The economic effect of issuing such an instrument is substantially the same as issuing simultaneously a debt instrument with an early settlement provision and warrants to purchase ordinary shares, or issuing a debt instrument with detachable share purchase warrants. Accordingly, in all cases, the entity presents the liability and net assets/equity components separately in its statement of financial position.

35. Classification of a convertible instrument into its components is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected because, for example, the tax consequences resulting from conversion may differ among holders. Furthermore, the likelihood of conversion will change from time to time. The entity's contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument, or some other transaction.

36. IPSAS 41 deals with the measurement of financial assets and financial liabilities. Equity instruments evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated into its components, the net assets/equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument is included in the liability component unless it forms part of the component of net assets/equity (such as an equity conversion option). The sum of the carrying amounts assigned to the liability and the net assets/equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

37. Under the approach described in paragraph 36, the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated net assets/equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

Treasury Shares (see also paragraph AG61)

38. **If an entity reacquires its own equity instruments, those instruments ("treasury shares") shall be deducted from net assets/equity. No gain or loss shall be recognized in surplus or deficit on the purchase, sale, issue, or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the economic entity. Consideration paid or received shall be recognized directly in net assets/equity.**

39. The amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with IPSAS 1. An entity provides disclosure in accordance with IPSAS 20, *Related Party Disclosures* if the entity reacquires its own equity instruments from related parties.

Interest, Dividends or Similar Distributions, Losses, and Gains (see also paragraph AG62)

40. **Interest, dividends or similar distributions, losses, and gains relating to a financial instrument or a component that is a financial liability shall be recognized as revenue or expense in surplus or deficit. Distributions to holders of an equity instrument shall be recognized by the entity directly in net assets/equity. Transaction costs incurred on transactions in net assets/equity shall be accounted for as a deduction from net assets/equity.**

40A. Income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.

41. The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends or similar distributions, losses, and gains relating to that instrument are recognized as revenue or expense in surplus or deficit. Thus, dividends or similar distributions on shares wholly recognized

as liabilities are recognized as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognized in surplus or deficit, whereas redemptions or refinancings of equity instruments are recognized as changes in net assets/equity. Changes in the fair value of an equity instrument are not recognized in the financial statements.

42. An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs, and stamp duties. Any related transaction costs are accounted for as a deduction from net assets/equity to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. The costs of such a transaction that is abandoned are recognized as an expense.

43. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and the net assets/equity components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.

44. The amount of transaction costs accounted for as a deduction from net assets/equity in the period is disclosed separately in accordance with IPSAS 1.

45. Dividends or similar distributions classified as an expense are presented in the statement of financial performance either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, disclosure of interest and dividends or similar distributions is subject to the requirements of IPSAS 1 and IPSAS 30. In some circumstances, because of the differences between interest and dividends or similar distributions with respect to matters such as tax deductibility, it is desirable to disclose them separately in the statement financial performance.

46. Gains and losses related to changes in the carrying amount of a financial liability are recognized as revenue or expense in surplus or deficit even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 22(b)). Under IPSAS 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of financial performance when it is relevant in explaining the entity's performance.

Offsetting a Financial Asset and a Financial Liability (see also paragraphs AG63 and AG64)

47. **A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:**

    (a) **Currently has a legally enforceable right to set off the recognized amounts; and**

    (b) **Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.**

    In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see IPSAS 41, paragraph 33).

48. This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 17B–17E in IPSAS 30 for recognized financial instruments that are within the scope of paragraph 17A of IPSAS 30.

49. Offsetting a recognized financial asset and a recognized financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognized item from the statement of financial position but also may result in recognition of a gain or loss.

50. A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another and the laws applicable to the relationships between the parties need to be considered.

51. The existence of an enforceable right to set-off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity's future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.

52. An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating practices, the requirements of the financial markets, and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realize the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 42 of IPSAS 30.

53. Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realization of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.

54. The conditions set out in paragraph 47 are generally not satisfied and offsetting is usually inappropriate when:

(a) Several different financial instruments are used to emulate the features of a single financial instrument (a "synthetic instrument");

(b) Financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (e.g., assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;

(c) Financial or other assets are pledged as collateral for non-recourse financial liabilities;

(d) Financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (e.g., a sinking fund arrangement); or

(e) Obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

55. An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements may be commonly used to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 47 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph 42 of IPSAS 30.

Transition

56. [Deleted]

57. [Deleted]

58. [Deleted]

Effective Date

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

60. **An entity shall not apply this Standard before January 1, 2013, unless it also applies IPSAS 29 and IPSAS 30.**

60A. **Paragraphs 40, 42 and 44 were amended and paragraph 40A added by *Improvements to IPSAS 2014* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2015. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2015, it shall disclose that fact.**

60B. **Paragraphs 56, 57, 58 and 61 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

60C. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements* issued in January 2015, amended paragraphs 3(a) and AG53. An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 37.**

60D. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

60E. **Paragraph 3 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1,**

2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.

60F. **Paragraphs 2, 3, 4, 9, 10, 14, 28, 36, 47, 48, AG2 and AG55 were amended, paragraph AG63 was deleted and paragraphs AG63A, AG63B, AG63C, AG63D, AG63E and AG63F were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

60G. **Paragraph AG23 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

60H. **Paragraphs AG16 and AG17 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

60I. **Paragraph AG56 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

60J. **Paragraphs AG21 and AG46 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

61. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal and Replacement of IPSAS 15 (2001)

62. This Standard and IPSAS 30 supersede IPSAS 15, issued in 2001. IPSAS 15 remains applicable until IPSAS 28 and IPSAS 30 are applied or become effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 28.

AG1. This Application Guidance explains the application of particular aspects of the Standard.

AG2. The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in IPSAS 41.

Scope (paragraphs 3–6)

Financial Guarantee Contracts

AG3. Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original terms of a debt instrument. Governments may issue financial guarantees for a variety of reasons. They are often issued to further a government's policy objectives, for example, to support infrastructure projects and stabilize the financial market in times of distress. Governments and public sector entities may be granted the power to issue financial guarantees by legislation or other authority. In assessing whether a guarantee is contractual or non-contractual, an entity distinguishes the right to issue the guarantee and the actual issue of the guarantee. The right to issue the guarantee in terms of legislation or other authority is non-contractual, while the actual issue of the guarantee should be assessed using the principles in paragraph AG20 to determine whether the guarantee is contractual.

AG4. The issuing of financial guarantees in favor of a third party, whether explicitly or implicitly, may result in a contractual arrangement. Financial guarantees may be issued to a specific party or they may be issued to the holder of an instrument. Consider the following two examples:

- In a service concession arrangement, a government may issue a financial guarantee directly to the financiers of the transaction stating that, in the event of default, it would assume payment for any outstanding principal and interest payments of a loan. In this instance, the financial guarantee is explicitly issued in favor of an identified counterparty.
- Road authority A is responsible for constructing and maintaining a country's road infrastructure. It finances the construction of new roads by issuing long term bonds. National government A exercises its powers in legislation and guarantees the bond issue of road authority A. At the time the guarantee is issued, there are no specific counterparties that have been identified, rather the guarantee is implicitly issued in favor of the holders of a specific instrument.

In both these scenarios, assuming that all the other features of a contract are met, the financial guarantee is contractual in nature.

Insurance Contracts

AG5. Some economic entities in the public sector may include entities that issue insurance contracts. Those entities are within the scope of this Standard, but the insurance contracts themselves are outside the scope of this Standard.

AG6. For the purposes of this Standard, an insurance contract is a contract that exposes the insurer to identified risks of loss from events or circumstances occurring or discovered within a specified period, including death (i.e., in the case of an annuity, the survival of the annuitant), sickness, disability, property damage, injury to others, and interruption of operations. Additional guidance on insurance contracts is available in the relevant international or national standard dealing with insurance contracts.

AG7. Some financial instruments take the form of insurance contracts but principally involve the transfer of financial risks, such as market, credit, or liquidity risk. Examples of such instruments include financial guarantee contracts, reinsurance, and guaranteed investment contracts issued by public sector insurers and other entities. An entity is required to apply this Standard to certain financial guarantee contracts, and is permitted to apply this Standard to other insurance contracts that involve the transfer of financial risk.

AG8. Financial guarantee contracts are treated as financial instruments unless an entity elects to treat them as insurance contracts in accordance with this paragraph and also complies with the requirements of paragraph AG9. An entity may make this election in the following instances:

(a) If an entity previously applied accounting applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, it may continue to treat such contracts either as insurance contracts or as financial instruments in accordance with this Standard.

(b) If an entity previously did not apply accounting applicable to insurance contracts, it may elect to treat financial guarantee contracts either as insurance contracts or as financial instruments when an entity adopts this Standard.

In both (a) and (b) above, the election is made on a contract by contract basis, and the choice is irrevocable.

AG9. In accordance with paragraph 3(c), an entity treats financial guarantee contracts as financial instruments unless it elects to treat such contracts as insurance contracts in accordance with the relevant international or national standard dealing with insurance contracts. An entity is permitted to treat a financial guarantee contract as an insurance contract using a national accounting standard only if that standard requires the measurement of insurance liabilities at an amount that is not less than the carrying amount that would be determined if the relevant insurance liabilities were within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. In determining the carrying amount of insurance liabilities, an entity considers the current estimates of all cash flows arising from its insurance contracts and of related cash flows.

Definitions (paragraphs 9–12)

Financial Assets and Financial Liabilities

AG10. Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognized in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a check or similar instrument against the balance in favor of a creditor in payment of a financial liability. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, *Inventories* in accounting for any unissued currency. Currency issued as legal tender from the perspective of the issuer, is not addressed in this Standard.

AG11. Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:

(a) Accounts receivable and payable;

(b) Notes receivable and payable;

(c) Loans receivable and payable; and

(d) Bonds receivable and payable.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).

AG12. Another type of financial instrument is one for which the economic benefit to be received or given up is a financial asset other than cash. For example, a note payable in government bonds gives the holder the contractual right to receive and the issuer the contractual obligation to deliver government bonds, not cash. The bonds are financial assets because they represent obligations of the issuing government to pay cash. The note is, therefore, a financial asset of the note holder and a financial liability of the note issuer.

AG13. "Perpetual" debt instruments (such as "perpetual" bonds, debentures and capital notes) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. For example, an entity may issue a financial instrument requiring it to make annual payments in perpetuity equal to a stated interest rate of 8 percent applied to a stated par or principal amount of CU1,000. Assuming 8 percent to be the market rate of interest for the instrument when issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of CU1,000 on initial recognition. The holder and issuer of the instrument have a financial asset and a financial liability, respectively.

AG14. A contractual right or contractual obligation to receive, deliver or exchange financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of an equity instrument.

AG15. The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognized in the financial statements. Some of these contingent rights and obligations may be insurance contracts.

AG16. A lease typically creates an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under a finance lease rather than the underlying asset itself that is subject to the finance lease. Accordingly, a lessor regards a finance lease as a financial instrument. Under IPSAS 43, *Leases* a lessor does not recognize its entitlement to receive lease payments under an operating lease. The lessor continues to account for the underlying asset itself rather than any amount receivable in the future under the contract. Accordingly, a lessor does not regard an operating lease as a financial instrument, except as regards individual payments currently due and payable by the lessee.

AG17. Physical assets (such as inventories, property, plant and equipment), right-of-use assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical assets, right-of-use assets and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.

AG18. Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

AG19. Assets and liabilities in the public sector arise out of both contractual and non-contractual arrangements. Assets and liabilities arising out of non-contractual arrangements do not meet the definition of a financial asset or a financial liability.

AG20. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a "contract" for purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return i.e., the arrangement does not result in equal performance by the parties; and
- The remedy for non-performance is enforceable by law.

AG21. In the public sector, it is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from revenue transactions are accounted for in accordance with IPSAS 47, *Revenue*. If non-exchange revenue transactions are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG10–AG18 of this Standard. An entity uses the guidance in this Standard and IPSAS 47 in assessing whether a revenue transaction gives rise to a liability or an equity instrument (contribution from owners).

AG22. An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual non-exchange revenue transaction is in substance a liability or an equity instrument.

AG23. Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.
- Obligations to provide social benefits are accounted for in accordance with IPSAS 42, *Social Benefits*.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

AG24. Constructive obligations, as defined in IPSAS 19, also do not arise from contracts and are therefore not financial liabilities.

Equity Instruments

AG25. It is not common for entities in the public sector to have contributed capital comprising equity instruments, for example, shares and other forms of unitized capital. Where entities do issue equity instruments, the ownership and use of those instruments may be restricted by legislation. For example, legislation may stipulate that shares in a public sector entity may only be owned by another public sector entity and may therefore not be used as consideration for the settlement of transactions.

AG26. Contributed capital in the public sector may also be evidenced by transfers of resources between parties. The issuance of equity instruments in respect of a transfer of resources is not essential for the transfer to meet the definition of a contribution from owners. Transfers of resources that result in an interest in the net assets/equity of an entity are distinguished from other transfers of resources because they may be evidenced by the following:

- A formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets/equity, either before the contribution occurs or at the time of the contribution. For example, on establishing a new entity, the budget office of the department of finance may deem that the initial transfers of resources to an entity establish an interest in the net assets/equity of an entity rather than provide funding to meet operational requirements.
- A formal agreement, in relation to the transfer, establishing or increasing an existing financial interest in the net assets/equity of an entity that can be sold, transferred or redeemed.

Even though transfers of resources may be evidenced by a designation or formal agreement, an entity assesses the nature of transfers of resources based on their substance and not merely their legal form.

AG27. For the purposes of this Standard, the term "equity instrument" may be used to denote the following:

- A form of unitized capital such as ordinary or preference shares;
- Transfers of resources (either designated or agreed as such between the parties to the transaction) that evidence a residual interest in the net assets of another entity; and/or
- Financial liabilities in the legal form of debt that, in substance, represent an interest in an entity's net assets.

Puttable Instruments

AG28. Where an entity's contributed capital is comprised of shares or other forms of unitized capital, these instruments may take a number of forms, for example non-puttable ordinary shares, some puttable instruments (see paragraphs 15 and 16), some instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (see paragraphs 17 and 18), some types of preference shares (see paragraphs AG49 and AG50), and warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. An entity's obligation to issue or purchase a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument of the entity (except as stated in paragraph 27). However, if such a contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18), it also gives rise to a liability for the present value of the redemption amount (see paragraph AG51(a)). An issuer of non-puttable ordinary shares assumes a liability when it formally acts to make a distribution and becomes legally obliged to the shareholders to do so. This may be the case following the declaration of a dividend or when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.

AG29. A purchased call option or other similar contract acquired by an entity that gives it the right to reacquire a fixed number of its own equity instruments in exchange for delivering a fixed amount of cash or another financial asset is not a financial asset of the entity (except as stated in paragraph 27). Instead, any consideration paid for such a contract is deducted from net assets/equity.

The Class of Instruments that is Subordinate to all Other Classes (paragraphs 15(b) and 17(b))

AG30. One of the features of paragraphs 15 and 17 is that the financial instrument is in the class of instruments that is subordinate to all other classes.

AG31. When determining whether an instrument is in the subordinate class, an entity evaluates the instrument's claim on liquidation as if it were to liquidate on the date when it classifies the instrument. An entity shall reassess the classification if there is a change in relevant circumstances. For example, if the entity issues or

redeems another financial instrument, this may affect whether the instrument in question is in the class of instruments that is subordinate to all other classes.

AG32. An instrument that has a preferential right on liquidation of the entity is not an instrument with an entitlement to a pro rata share of the net assets of the entity. For example, an instrument has a preferential right on liquidation if it entitles the holder to a fixed dividend on liquidation, in addition to a share of the entity's net assets, when other instruments in the subordinate class with a right to a pro rata share of the net assets of the entity do not have the same right on liquidation.

AG33. If an entity has only one class of financial instruments, that class shall be treated as if it were subordinate to all other classes.

Total Expected Cash Flows Attributable to the Instrument over the Life of the Instrument (paragraph 15(e))

AG34. The total expected cash flows of the instrument over the life of the instrument must be substantially based on the surplus or deficit, change in the recognized net assets, or fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. Surplus or deficit and the change in the recognized net assets shall be measured in accordance with relevant IPSAS.

Transactions Entered into by an Instrument Holder Other Than as Owner of the Entity (paragraphs 15 and 17)

AG35. The holder of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation may enter into transactions with the entity in a role other than that of an owner. For example, an instrument holder also may be an employee of the entity. Only the cash flows and the contractual terms and conditions of the instrument that relate to the instrument holder as an owner of the entity shall be considered when assessing whether the instrument should be classified as an equity instrument under paragraph 15 or paragraph 17.

AG36. An example is a limited partnership that has limited and general partners. Some general partners may provide a guarantee to the entity and may be remunerated for providing that guarantee. In such situations, the guarantee and the associated cash flows relate to the instrument holders in their role as guarantors and not in their roles as owners of the entity. Therefore, such a guarantee and the associated cash flows would not result in the general partners being considered subordinate to the limited partners, and would be disregarded when assessing whether the contractual terms of the limited partnership instruments and the general partnership instruments are identical.

AG37. Another example is a surplus or deficit sharing arrangement that allocates surpluses and deficits to the instrument holders on the basis of services rendered or business generated during the current and previous years. Such arrangements are transactions with instrument holders in their role as non-owners and should not be considered when assessing the features listed in paragraph 15 or paragraph 17. However, such arrangements that allocate surpluses and deficits to instrument holders based on the nominal amount of their instruments relative to others in the class represent transactions with the instrument holders in their roles as owners and should be considered when assessing the features listed in paragraph 15 or paragraph 17.

AG38. The cash flows and contractual terms and conditions of a transaction between the instrument holder (in the role as a non-owner) and the issuing entity must be similar to an equivalent transaction that might occur between a non-instrument holder and the issuing entity.

No Other Financial Instrument or Contract with Total Cash Flows that Substantially Fixes or Restricts the Residual Return to the Instrument Holder (paragraphs 16 and 18)

AG39. A condition for classifying an equity instrument as a financial instrument that otherwise meets the criteria in paragraph 15 or paragraph 17 is that the entity has no other financial instrument or contract that has (a) total cash flows based substantially on the surplus or deficit, the change in the recognized net assets, or the change in the fair value of the recognized and unrecognized net assets of the entity and (b) the effect of substantially restricting or fixing the residual return. The following instruments, when entered into on normal commercial terms with unrelated parties, are unlikely to prevent instruments that otherwise meet the criteria in paragraph 15 or paragraph 17 from being classified as equity instruments:

(a) Instruments with total cash flows substantially based on specific assets of the entity.

(b) Instruments with total cash flows based on a percentage of revenue.

(c) Contracts designed to reward individual employees for services rendered to the entity.

(d) Contracts requiring the payment of an insignificant percentage of profit for services rendered or goods provided.

Derivative Financial Instruments

AG40. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Standard.

AG41. Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable. However, they generally[1] do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favorable or unfavorable.

AG42. A put or call option to exchange financial assets or financial liabilities (i.e., financial instruments other than an entity's own equity instruments) gives the holder a right to obtain potential future economic benefits associated with changes in the fair value of the financial instrument underlying the contract. Conversely, the writer of an option assumes an obligation to forgo potential future economic benefits or bear potential losses of economic benefits associated with changes in the fair value of the underlying financial instrument. The contractual right of the holder and obligation of the writer meet the definition of a financial asset and a financial liability, respectively. The financial instrument underlying an option contract may be any financial asset, including shares in other entities and interest-bearing instruments. An option may require the writer to issue a debt instrument, rather than transfer a financial asset, but the instrument underlying the option would constitute a financial asset of the holder if the option were exercised. The option-holder's right to exchange the financial asset under potentially favorable conditions and the writer's obligation to exchange the financial asset under potentially unfavorable conditions are distinct from the underlying financial asset to be

[1] This is true of most, but not all derivatives, e.g., in some cross-currency interest rate swaps principal is exchanged on inception (and re-exchanged on maturity).

exchanged upon exercise of the option. The nature of the holder's right and of the writer's obligation are not affected by the likelihood that the option will be exercised.

AG43. Another example of a derivative financial instrument is a forward contract to be settled in six months' time in which one party (the purchaser) promises to deliver CU1,000,000 cash in exchange for CU1,000,000 face amount of fixed rate government bonds, and the other party (the seller) promises to deliver CU1,000,000 face amount of fixed rate government bonds in exchange for CU1,000,000 cash. During the six months, both parties have a contractual right and a contractual obligation to exchange financial instruments. If the market price of the government bonds rises above CU1,000,000, the conditions will be favorable to the purchaser and unfavorable to the seller; if the market price falls below CU1,000,000, the effect will be the opposite. The purchaser has a contractual right (a financial asset) similar to the right under a call option held and a contractual obligation (a financial liability) similar to the obligation under a put option written; the seller has a contractual right (a financial asset) similar to the right under a put option held and a contractual obligation (a financial liability) similar to the obligation under a call option written. As with options, these contractual rights and obligations constitute financial assets and financial liabilities separate and distinct from the underlying financial instruments (the bonds and cash to be exchanged). Both parties to a forward contract have an obligation to perform at the agreed time, whereas performance under an option contract occurs only if and when the holder of the option chooses to exercise it.

AG44. Many other types of derivative instruments embody a right or obligation to make a future exchange, including interest rate and currency swaps, interest rate caps, collars and floors, loan commitments, note issuance facilities, and letters of credit. An interest rate swap contract may be viewed as a variation of a forward contract in which the parties agree to make a series of future exchanges of cash amounts, one amount calculated with reference to a floating interest rate and the other with reference to a fixed interest rate. Futures contracts are another variation of forward contracts, differing primarily in that the contracts are standardized and traded on an exchange.

Contracts to Buy or Sell Non-Financial Items (paragraphs 4–6)

AG45. Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (e.g., an option, futures or forward contract on oil) are not financial instruments. Many commodity contracts are of this type. Some are standardized in form and traded on organized markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of the Standard as if they were financial instruments (see paragraph 4).

AG46. Except as required by IPSAS 47, a contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on credit.

AG47. Some contracts are commodity-linked, but do not involve settlement through the physical receipt or delivery of a commodity. They specify settlement through cash payments that are determined according to a formula

in the contract, rather than through payment of fixed amounts. For example, the principal amount of a bond may be calculated by applying the market price of oil prevailing at the maturity of the bond to a fixed quantity of oil. The principal is indexed by reference to a commodity price, but is settled only in cash. Such a contract constitutes a financial instrument.

AG48. The definition of a financial instrument also encompasses a contract that gives rise to a non-financial asset or non-financial liability in addition to a financial asset or financial liability. Such financial instruments often give one party an option to exchange a financial asset for a non-financial asset. For example, an oil-linked bond may give the holder the right to receive a stream of fixed periodic interest payments and a fixed amount of cash on maturity, with the option to exchange the principal amount for a fixed quantity of oil. The desirability of exercising this option will vary from time to time depending on the fair value of oil relative to the exchange ratio of cash for oil (the exchange price) inherent in the bond. The intentions of the bondholder concerning the exercise of the option do not affect the substance of the component assets. The financial asset of the holder and the financial liability of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities also created.

Presentation

Liabilities and Net Assets/Equity (paragraphs 13–32)

No Contractual Obligation to Deliver Cash or another Financial Asset (paragraphs 21–24)

AG49. Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction, or insufficient surpluses or reserves, does not negate the obligation. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to transfer financial assets to the shareholders. In this case, redemption of the shares is solely at the discretion of the issuer. An obligation may arise, however, when the issuer of the shares exercises its option, usually by formally notifying the shareholders of an intention to redeem the shares.

AG50. When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

(a) A history of making distributions;

(b) An intention to make distributions in the future;

(c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);

(d) The amount of the issuer’s reserves;

(e) An issuer’s expectation of a surplus or deficit for a period; or

(f) An ability or inability of the issuer to influence the amount of its surplus or deficit for the period.

Settlement in the Entity's Own Equity Instruments (paragraphs 25–29)

AG51. As noted in paragraph AG25, it is not common for entities in the public sector to issue equity instruments comprising shares or other forms of unitized capital; and where such instruments do exist, their use and ownership is usually restricted in legislation. As a result of the capital structure of public sector entities generally being different from private sector entities, and the legislative environment in which public sector entities operate, transactions that are settled in an entity's own equity instruments are not likely to occur as frequently in the public sector as in the private sector. However, where such transactions do occur, the following examples may assist in illustrating how to classify different types of contracts on an entity's own equity instruments:

(a) A contract that will be settled by the entity receiving or delivering a fixed number of its own shares for no future consideration, or exchanging a fixed number of its own shares for a fixed amount of cash or another financial asset, is an equity instrument (except as stated in paragraph 27). Accordingly, any consideration received or paid for such a contract is added directly to or deducted directly from net assets/equity. One example is an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed amount of cash. However, if the contract requires the entity to purchase (redeem) its own shares for cash or another financial asset at a fixed or determinable date or on demand, the entity also recognizes a financial liability for the present value of the redemption amount (with the exception of instruments that have all the features and meet the conditions in paragraph 15 and 16 or paragraphs 17 and 18). One example is an entity's obligation under a forward contract to repurchase a fixed number of its own shares for a fixed amount of cash.

(b) An entity's obligation to purchase its own shares for cash gives rise to a financial liability for the present value of the redemption amount even if the number of shares that the entity is obliged to repurchase is not fixed or if the obligation is conditional on the counterparty exercising a right to redeem (except as stated in paragraphs 15 and 16 or paragraphs 17 and 18). One example of a conditional obligation is an issued option that requires the entity to repurchase its own shares for cash if the counterparty exercises the option.

(c) A contract that will be settled in cash or another financial asset is a financial asset or financial liability even if the amount of cash or another financial asset that will be received or delivered is based on changes in the market price of the entity's own equity instruments (except as stated in paragraphs 15 and 16 or paragraphs 17 and 18). One example is a net cash-settled share option.

A contract that will be settled in a variable number of the entity's own shares whose value equals a fixed amount or an amount based on changes in an underlying variable (e.g., a commodity price) is a financial asset or a financial liability. An example is a written option to buy oil that, if exercised, is settled net in the entity's own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract. Such a contract is a financial asset or financial liability even if the underlying variable is the entity's own share price rather than oil. Similarly, a contract that will be settled in a fixed number of the entity's own shares, but the rights attaching to those shares will be varied so that the settlement value equals a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability.

Contingent Settlement Provisions (paragraph 30)

AG52. Paragraph 30 requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash or a variable number of the entity's own shares only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is an equity

instrument. Similarly, settlement in a fixed number of an entity's own shares may be contractually precluded in circumstances that are outside the control of the entity, but if these circumstances have no genuine possibility of occurring, classification as an equity instrument is appropriate.

Treatment in Consolidated Financial Statements

AG53. In consolidated financial statements, an entity presents non-controlling interests i.e., the interests of other parties in the net assets/equity and revenue of its controlled entities in accordance with IPSAS 1 and IPSAS 35. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the economic entity and the holders of the instrument in determining whether the economic entity as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a controlled entity issues a financial instrument and a controlling entity or other entity within the economic entity agrees additional terms directly with the holders of the instrument (e.g., a guarantee), the economic entity may not have discretion over distributions or redemption. Although the controlled entity may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the economic entity and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the economic entity as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.

AG54. Some types of instruments that impose a contractual obligation on the entity are classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. Classification in accordance with those paragraphs is an exception to the principles otherwise applied in this Standard to the classification of an instrument and cannot be applied by analogy to other instruments. This exception is not extended to the classification of non-controlling interests in the consolidated financial statements. Therefore, instruments classified as equity instruments in accordance with either paragraphs 15 and 16 or paragraphs 17 and 18 in the separate or individual financial statements that are non-controlling interests are classified as liabilities in the consolidated financial statements of the economic entity.

Compound Financial Instruments (paragraphs 33–37)

AG55. Paragraph 33 applies only to issuers of non-derivative compound financial instruments. Paragraph 33 does not deal with compound financial instruments from the perspective of holders. IPSAS 41 deals with the classification and measurement of financial assets that are compound financial instruments from the holder's perspective.

AG56. Compound financial instruments are not common in the public sector because of the capital structure of public sector entities. The following discussion does, however, illustrate how a compound financial instrument would be analyzed into its component parts. A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 33 requires the issuer of such a financial instrument to present the liability component and net assets/equity component separately in the statement of financial position, as follows:

(a) The issuer's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

(b) The equity instrument is an embedded option to convert the liability into net assets/equity of the issuer. This option has value on initial recognition even when it is out of the money.

AG57. On conversion of a convertible instrument at maturity, the entity derecognizes the liability component and recognizes it as net assets/equity. The original net assets/equity component remains as net assets/equity (although it may be transferred from one line item within net assets/equity to another.) There is no gain or loss on conversion at maturity.

AG58. When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with paragraphs 33–37.

AG59. Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:

(a) The amount of gain or loss relating to the liability component is recognized in surplus or deficit; and

(b) The amount of consideration relating to the net assets/equity component is recognized in net assets/equity.

AG60. An entity may amend the terms of a convertible instrument to induce early conversion, for example by offering a more favorable conversion ratio or paying other additional consideration in the event of conversion before a specified date. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognized as a loss in surplus or deficit.

Treasury Shares (paragraphs 38 and 39)

AG61. An entity's own equity instruments are not recognized as a financial asset regardless of the reason for which they are reacquired. Paragraph 38 requires an entity that reacquires its own equity instruments to deduct those equity instruments from net assets/equity. However, when an entity holds its own equity instruments on behalf of others, for example, a financial institution holding its own equity instruments on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's statement of financial position.

Interest, Dividends or Similar Distributions, Losses, and Gains (paragraphs 40–46)

AG62. The following example illustrates the application of paragraph 40 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognized in surplus or deficit and classified as interest expense. Any dividends paid relate to the net assets/equity component and, accordingly, are recognized as a distribution of surplus or deficit. A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (for example, a commodity). However, if any unpaid dividends or similar distributions are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends or similar distributions are classified as interest expense.

Offsetting a Financial Asset and a Financial Liability (paragraphs 47–55)

AG63. [Deleted]

Criterion that an Entity 'Currently has a Legally Enforceable Right to Set Off the Recognized Amounts' (paragraph 47(a))

AG63A. A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of operations, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG63B. To meet the criterion in paragraph 47(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

(a) Must not be contingent on a future event; and

(b) Must be legally enforceable in all of the following circumstances:

(i) The normal course of operations;

(ii) The event of default; and

(iii) The event of insolvency or bankruptcy of the entity and all of the counterparties.

AG63C. The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of operations. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG63D. The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of operations, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG63B(b)).

Criterion that an Entity 'Intends Either to Settle on a Net Basis, or to Realize the Asset and Settle the Liability Simultaneously' (paragraph 47(b))

AG63E. To meet the criterion in paragraph 47(b) an entity must intend either to settle on a net basis or to realize the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realize the asset and settle the liability separately.

AG63F. If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 47(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 47(b):

(a) Financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;

(b) Once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;

(c) There is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);

(d) Assets and liabilities that are collateralized with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);

(e) Any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;

(f) Settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and

(g) An intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honored if called upon.

AG64. The Standard does not provide special treatment for so-called “synthetic instruments,” which are groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. For example, a floating rate long-term debt combined with an interest rate swap that involves receiving floating payments and making fixed payments synthesizes a fixed rate long-term debt. Each of the individual financial instruments that together constitute a “synthetic instrument” represents a contractual right or obligation with its own terms and conditions and each may be transferred or settled separately. Each financial instrument is exposed to risks that may differ from the risks to which other financial instruments are exposed. Accordingly, when one financial instrument in a “synthetic instrument” is an asset and another is a liability, they are not offset and presented in an entity’s statement of financial position on a net basis unless they meet the criteria for offsetting in paragraph 47.

Appendix B

Members' Shares in Co-operative Entities and Similar Instruments

This Appendix is an integral part of IPSAS 28.

Introduction

B1. Co-operatives and other similar entities are formed by groups of persons to meet common economic or social needs. National laws typically define a co-operative as a society endeavoring to promote its members' economic advancement by way of a joint business operation (the principle of self-help). Members' interests in a co-operative are often characterised as members' shares, units or the like, and are referred to below as "members' shares." This Appendix applies to financial instruments issued to members of co-operative entities that evidence the members' ownership interest in the entity and does not apply to financial instruments that will or may be settled in the entity's own equity instruments.

B2. IPSAS 28 establishes principles for the classification of financial instruments as financial liabilities or net assets/equity. In particular, those principles apply to the classification of puttable instruments that allow the holder to put those instruments to the issuer for cash or another financial instrument. The application of those principles to members' shares in co-operative entities and similar instruments is difficult. This guidance is provided to illustrate the application of the principles in IPSAS 28 to members' shares and similar instruments that have certain features, and the circumstances in which those features affect the classification as liabilities or net assets/equity.

B3. Many financial instruments, including members' shares, have characteristics of equity instruments, including voting rights and rights to participate in dividend or similar distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. The following paragraphs outline how those redemption terms should be evaluated in determining whether the financial instruments should be classified as liabilities or net assets/equity.

Application of IPSAS to Members' Shares in Co-operative Entities and Similar Instruments

B4. The contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or an equity instrument. Those terms and conditions include relevant local laws, regulations and the entity's governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter.

B5. Members' shares that would be classified as equity instruments if the members did not have a right to request redemption are equity instruments if either of the conditions described in paragraphs B6 and B7 is present or the members' shares have all the features and meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28. Demand deposits, including current accounts, deposit accounts and similar contracts that arise when members act as customers are financial liabilities of the entity.

B6. Members' shares are equity instruments if the entity has an unconditional right to refuse redemption of the members' shares.

B7. Local law, regulation or the entity's governing charter can impose various types of prohibitions on the redemption of members' shares, e.g., unconditional prohibitions or prohibitions based on liquidity criteria. If redemption is unconditionally prohibited by local law, regulation or the entity's governing charter, members' shares are equity instruments. However, provisions in local law, regulation or the entity's governing charter

that prohibit redemption only if conditions—such as liquidity constraints—are met (or are not met) do not result in members' shares being equity instruments.

B8. An unconditional prohibition may be absolute, in that all redemptions are prohibited. An unconditional prohibition may be partial, in that it prohibits redemption of members' shares if redemption would cause the number of members' shares or amount of paid-in capital from members' shares to fall below a specified level. Members' shares in excess of the prohibition against redemption are liabilities, unless the entity has the unconditional right to refuse redemption as described in paragraph B6 or the members' shares have all the features and meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28. In some cases, the number of shares or the amount of paid-in capital subject to a redemption prohibition may change from time to time. Such a change in the redemption prohibition leads to a transfer between financial liabilities and net assets/equity.

B9. At initial recognition, the entity shall measure its financial liability for redemption at fair value. In the case of members' shares with a redemption feature, the entity measures the fair value of the financial liability for redemption at no less than the maximum amount payable under the redemption provisions of its governing charter or applicable law discounted from the first date that the amount could be required to be paid (see example 3).

B10. As required by paragraph 40 of IPSAS 28, distributions to holders of equity instruments are recognized directly in net assets/equity, net of any income tax benefits. Interest, dividends or similar distributions and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends or similar distributions, interest or otherwise.

B11. When a change in the redemption prohibition leads to a transfer between financial liabilities and net assets/equity, the entity shall disclose separately the amount, timing and reason for the transfer.

B12. The following examples illustrate the application of the preceding paragraphs.

Illustrative Examples

The examples do not constitute an exhaustive list; other fact patterns are possible. Each example assumes that there are no conditions other than those set out in the facts of the example that would require the financial instrument to be classified as a financial liability and that the financial instrument does not have all the features or does not meet the conditions in paragraph 15 and 16 or paragraphs 17 and 18 of IPSAS 28.

Unconditional Right to Refuse Redemption (paragraph B6)

Example 1

Facts

B13. The entity's charter states that redemptions are made at the sole discretion of the entity. The charter does not provide further elaboration or limitation on that discretion. In its history, the entity has never refused to redeem members' shares, although the governing board has the right to do so.

Classification

B14. The entity has the unconditional right to refuse redemption and the members' shares are equity instruments. IPSAS 28 establishes principles for classification that are based on the terms of the financial instrument and notes that a history of, or intention to make, discretionary payments does not trigger liability classification. Paragraph AG50 of IPSAS 28 states:

> When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the

issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

(a) A history of making distributions;

(b) An intention to make distributions in the future;

(c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);

(d) The amount of the issuer's reserves;

(e) An issuer's expectation of a surplus or deficit for a period; or

(f) An ability or inability of the issuer to influence the amount of its surplus or deficit for the period.

Example 2

Facts

B15. The entity's charter states that redemptions are made at the sole discretion of the entity. However, the charter further states that approval of a redemption request is automatic unless the entity is unable to make payments without violating local regulations regarding liquidity or reserves.

Classification

B16. The entity does not have the unconditional right to refuse redemption and the members' shares are classified as a financial liability. The restrictions described above are based on the entity's ability to settle its liability. They restrict redemptions only if the liquidity or reserve requirements are not met and then only until such time as they are met. Hence, they do not, under the principles established in IPSAS 28, result in the classification of the financial instrument as equity instruments. Paragraph AG49 of IPSAS 28 states:

> Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. *The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient surpluses or reserves, does not negate the obligation.* [Emphasis added]

Prohibitions against Redemption (paragraphs B7 and B8)

Example 3

Facts

B17. A co-operative entity has issued shares to its members at different dates and for different amounts in the past as follows:

(a) January 1, 20X1 100,000 shares at CU10 each (CU1,000,000);

(b) January 1, 20X2 100,000 shares at CU20 each (a further CU2,000,000, so that the total for shares issued is CU3,000,000).

Shares are redeemable on demand at the amount for which they were issued.

B18. The entity's charter states that cumulative redemptions cannot exceed 20 percent of the highest number of its members' shares ever outstanding. At December 31, 20X2 the entity has 200,000 of outstanding shares, which is the highest number of members' shares ever outstanding and no shares have been redeemed in the past. On January 1, 20X3 the entity amends its governing charter and increases the permitted level of cumulative redemptions to 25 percent of the highest number of its members' shares ever outstanding.

Classification

Before the Governing Charter is Amended

B19. Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity measures the fair value of such financial liabilities in accordance with paragraph 68 of IPSAS 41, which states: "The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand …" Accordingly, the co-operative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.

B20. On January 1, 20X1 the maximum amount payable under the redemption provisions is 20,000 shares at CU10 each and accordingly the entity classifies CU200,000 as financial liability and CU800,000 as equity instruments. However, on January 1, 20X2 because of the new issue of shares at CU20, the maximum amount payable under the redemption provisions increases to 40,000 shares at CU20 each. The issue of additional shares at CU20 creates a new liability that is measured on initial recognition at fair value. The liability after these shares have been issued is 20 percent of the total shares in issue (200,000), measured at CU20, or CU800,000. This requires recognition of an additional liability of CU600,000. In this example no gain or loss is recognized. Accordingly the entity now classifies CU800,000 as financial liabilities and CU2,200,000 as equity instruments. This example assumes these amounts are not changed between January 1, 20X1 and December 31, 20X2.

After the Governing Charter is Amended

B21. Following the change in its governing charter the co-operative entity can now be required to redeem a maximum of 25 percent of its outstanding shares or a maximum of 50,000 shares at CU20 each. Accordingly, on January 1, 20X3 the co-operative entity classifies as financial liabilities an amount of CU1,000,000 being the maximum amount payable on demand under the redemption provisions, as determined in accordance with paragraph 68 of IPSAS 41. It therefore transfers on January 1, 20X3 from net assets/equity to financial liabilities an amount of CU200,000, leaving CU2,000,000 classified as equity instruments. In this example the entity does not recognize a gain or loss on the transfer.

Example 4

Facts

B22. Local law governing the operations of co-operatives, or the terms of the entity's governing charter, prohibit an entity from redeeming members' shares if, by redeeming them, it would reduce paid-in capital from members' shares below 75 percent of the highest amount of paid-in capital from members' shares. The highest amount for a particular co-operative is CU1,000,000. At the end of the reporting period the balance of paid-in capital is CU900,000.

Classification

B23. In this case, CU750,000 would be classified as equity instruments and CU150,000 would be classified as financial liabilities. In addition to the paragraphs already cited, paragraph 22(b) of IPSAS 28 states in part:

> … a financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18.

B24. The redemption prohibition described in this example is different from the restrictions described in paragraphs 23 and AG49 of IPSAS 28. Those restrictions are limitations on the ability of the entity to pay the amount due on a financial liability, i.e., they prevent payment of the liability only if specified conditions are met. In contrast, this example describes an unconditional prohibition on redemptions beyond a specified amount, regardless of the entity's ability to redeem members' shares (e.g., given its cash resources, surpluses or distributable reserves). In effect, the prohibition against redemption prevents the entity from incurring any financial liability to redeem more than a specified amount of paid-in capital. Therefore, the portion of shares subject to the redemption prohibition is not a financial liability. While each member's shares may be redeemable individually, a portion of the total shares outstanding is not redeemable in any circumstances other than liquidation of the entity.

Example 5

Facts

B25. The facts of this example are as stated in example 4. In addition, at the end of the reporting period, liquidity requirements imposed in the local jurisdiction prevent the entity from redeeming any members' shares unless its holdings of cash and short-term investments are greater than a specified amount. The effect of these liquidity requirements at the end of the reporting period is that the entity cannot pay more than CU50,000 to redeem the members' shares.

Classification

B26. As in example 4, the entity classifies CU750,000 as equity instruments and CU150,000 as a financial liability. This is because the amount classified as a liability is based on the entity's unconditional right to refuse redemption and not on conditional restrictions that prevent redemption only if liquidity or other conditions are not met and then only until such time as they are met. The provisions of paragraphs 23 and AG49 of IPSAS 28 apply in this case.

Example 6

Facts

B27. The entity's governing charter prohibits it from redeeming members' shares, except to the extent of proceeds received from the issue of additional members' shares to new or existing members during the preceding three years. Proceeds from issuing members' shares must be applied to redeem shares for which members have requested redemption. During the three preceding years, the proceeds from issuing members' shares have been CU12,000 and no member's shares have been redeemed.

Classification

B28. The entity classifies CU12,000 of the members' shares as financial liabilities. Consistently with the conclusions described in example 4, members' shares subject to an unconditional prohibition against redemption are not financial liabilities. Such an unconditional prohibition applies to an amount equal to the proceeds of shares issued before the preceding three years, and accordingly, this amount is classified as equity instruments. However, an amount equal to the proceeds from any shares issued in the preceding three years is not subject to an unconditional prohibition on redemption. Accordingly, proceeds from the issue of members' shares in the preceding three years give rise to financial liabilities until they are no longer available for redemption of members' shares. As a result the entity has a financial liability equal to the proceeds of shares issued during the three preceding years, net of any redemptions during that period.

Example 7

Facts

B29. The entity is a co-operative bank. Local law governing the operations of co-operative banks state that at least 50 percent of the entity's total "outstanding liabilities" (a term defined in the regulations to include members' share accounts) has to be in the form of members' paid-in capital. The effect of the regulation is that if all of a co-operative's outstanding liabilities are in the form of members' shares, it is able to redeem them all. On December 31, 20X1 the entity has total outstanding liabilities of CU200,000, of which CU125,000 represent members' share accounts. The terms of the members' share accounts permit the holder to redeem them on demand and there are no limitations on redemption in the entity's charter.

Classification

B30. In this example members' shares are classified as financial liabilities. The redemption prohibition is similar to the restrictions described in paragraphs 23 and AG49 of IPSAS 28. The restriction is a conditional limitation on the ability of the entity to pay the amount due on a financial liability, i.e., they prevent payment of the liability only if specified conditions are met. More specifically, the entity could be required to redeem the entire amount of members' shares (CU125,000) if it repaid all of its other liabilities (CU75,000). Consequently, the prohibition against redemption does not prevent the entity from incurring a financial liability to redeem more than a specified number of members' shares or amount of paid-in capital. It allows the entity only to defer redemption until a condition is met, i.e., the repayment of other liabilities. Members' shares in this example are not subject to an unconditional prohibition against redemption and are therefore classified as financial liabilities.

Appendix C

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 28.

Introduction

BC1. This Basis for Conclusions summarizes the International Public Sector Accounting Standards Board's (IPSASB) considerations in reaching the conclusions in IPSAS 28, *Financial Instruments: Presentation*. As this Standard is primarily drawn from IAS 32, *Financial Instruments: Presentation* issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where the IPSAS 28 departs from the main requirements of IAS 32.

BC2. This project on financial instruments is a key part of the IPSASB's convergence program, which aims to converge IPSAS with International Financial Reporting Standards (IFRS). The IPSASB acknowledges that there are other aspects of financial instruments, in so far as they relate to the public sector, which are not addressed in IAS 32. These may be addressed by future projects of the IPSASB. In particular, the IPSASB acknowledges that future projects may be required to address:

- Certain transactions undertaken by central banks; and
- Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

BC3. In developing this Standard, the IPSASB agreed to retain the existing text of IAS 32, making changes to ensure consistency with the terminology and presentational requirements of other IPSAS, and deal with any public sector specific issues through additional Application Guidance.

BC4. In September 2007, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* which introduced "comprehensive income" into the presentation of financial statements. As the IPSASB has not yet considered comprehensive income, along with some of the other amendments to IAS 1, those amendments have not been included in IPSAS 28.

Scope

Insurance and Financial Guarantee Contracts

BC5. IAS 32 excludes all insurance contracts from the scope of IAS 32, except for financial guarantee contracts where the issuer applies IFRS 9, *Financial Instruments* in recognizing and measuring such contracts. The scope of IPSAS 28 also excludes all insurance contracts, except that:

- Financial guarantee contracts are to be treated as financial instruments unless an entity elects to treat such contracts as insurance contracts in accordance with the relevant international or national accounting standard dealing with insurance contracts; and
- Contracts that are insurance contracts but involve the transfer of financial risk may be treated as financial instruments in accordance with IPSAS 28, IPSAS 30 and IPSAS 41.

Treating Financial Guarantees as Financial Instruments

BC6. Under IAS 32, financial guarantee contracts should be treated as financial instruments, unless an issuer elects to apply IFRS 4 to those contracts. Unlike in the private sector, many financial guarantee contracts are issued in the public sector by way of a non-exchange transaction, i.e., at no or nominal consideration. So as to enhance the comparability of financial statements and, given the significance of financial guarantee contracts issued by way of non-exchange transactions in the public sector, the IPSASB had proposed that

such guarantees should be treated as financial instruments and entities should not be permitted to treat them as insurance contracts.

BC7. In response to this proposal, some respondents agreed that the treatment of financial guarantee contracts issued through non-exchange transactions as financial instruments, rather than as insurance contracts, is appropriate because the business models for exchange and non-exchange insurance contracts are different. Others argued that entities should be allowed to treat such guarantees as insurance contracts or financial instruments using an election similar to that in IFRS 4.

BC8. The IPSASB concluded that the same approach should be applied to financial guarantee contracts, regardless of whether they are issued through exchange or non-exchange transactions, because the underlying liability that should be recognized in an entity's financial statements does not differ. The IPSASB agreed that entities should be permitted a choice of treating financial guarantee contracts, either as insurance contracts or financial instruments, subject to certain conditions.

BC9. In evaluating the circumstances under which an entity may elect to treat financial guarantee contracts as insurance contracts, the IPSASB considered the requirements of IFRS 4. The election to treat financial guarantee contracts as financial instruments or insurance contracts under IFRS 4 is available only to those entities that previously explicitly asserted that they deem such contracts to be insurance contracts. The IPSASB, however, recognized that not all entities that have adopted accrual accounting apply IFRS 4. It acknowledged that it should also consider scenarios where, for example, entities applied accrual accounting but did not recognize assets and liabilities relating to insurance contracts, as well as entities that previously did not apply accrual accounting. Consequently, the IPSASB agreed that the existing requirements in IFRS 4 were too onerous and would need to be modified in the context of this Standard.

BC10. The IPSASB therefore agreed that entities that previously:

(a) Applied insurance accounting and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, could continue to treat those guarantees as insurance contracts or as financial instruments; and

(b) Did not apply insurance accounting would be allowed a choice of treating financial guarantee contracts either as insurance contracts or financial instruments when they adopt this Standard.

In both instances, the election is irrevocable.

BC11. The IPSASB considered whether entities should be allowed to elect to treat financial guarantees as insurance contracts on a contract-by-contract basis or, whether entities should be required to make a general accounting policy choice. It was agreed that the choice should be made on an individual contract basis to allow entities within an economic entity to treat financial guarantees as insurance contracts or financial instruments, based on the nature of their businesses.

BC12. The IPSASB agreed, as a precondition for allowing entities to treat financial guarantees as insurance contracts, that the accounting practices applied by entities for insurance contracts should meet certain requirements. The IPSASB agreed that if entities elected to treat financial guarantee contracts as insurance contracts, that they must apply either IFRS 4 or a national accounting standard that requires insurance liabilities to be measured at a minimum value. That minimum value is determined as if the insurance liabilities were within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* using the current estimates of cash flows arising from an entity's insurance contracts and of any related cash flows.

Option to Treat Insurance Contracts that Transfer Financial Risk as Financial Instruments

BC13. IPSAS 15 allowed entities to account for contracts that are insurance contracts that result in the transfer of financial risk, as financial instruments. In the absence of an IPSAS on insurance contracts, the IPSASB concluded that it should allow, but not require, entities to apply IPSAS 28 to such contracts.

Identifying Contractual Financial Guarantees

BC14. Financial instruments in IPSAS 28 are defined as: "…any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity." As arrangements in the public sector may arise through statutory powers, the IPSASB developed additional application guidance to identify when financial guarantees are contractual. The IPSASB concluded that, to be within the scope of IPSAS 28, financial guarantees should have the key features of a contractual arrangement. The IPSASB also concluded that an entity should distinguish the right to issue guarantees, which is often conferred on an entity through statutory or similar means, and the actual issuing of the guarantee in favour of a third party, irrespective of whether that party is explicitly or implicitly identified. A statutory right to issue guarantees, of itself, is not within the scope of this Standard.

Definitions

Contractual Arrangements

BC15. The IPSASB noted that, in certain jurisdictions, public sector entities are precluded from entering into formal contracts, but do enter into arrangements that have the substance of contracts. These arrangements may be known by another term, e.g., a "government order." To assist entities in identifying contracts, which either have the substance or legal form of a contract, the IPSASB considered it appropriate to issue additional Application Guidance explaining the factors an entity should consider in assessing whether an arrangement is contractual or non-contractual.

BC16. Consideration was given as to whether the term "binding arrangement" should be used to describe the arrangements highlighted in paragraph BC15. The term "binding arrangement" has not been defined, but has been used in IPSAS to describe arrangements that are binding on the parties, but do not take the form of a documented contract, such as an arrangement between two government departments that do not have the power to contract. The IPSASB concluded that the term "binding arrangements," as used in IPSAS, embraces a wider set of arrangements than those identified in paragraph BC15 and therefore concluded that it should not be used in this IPSAS.

Contractual Non-Exchange Revenue Transactions

BC17. When this Standard was developed, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising out of non-exchange revenue transactions. The IPSASB considered the interaction between this Standard and IPSAS 23.

BC18. In considering whether assets and liabilities that arise from non-exchange revenue transactions were financial assets and financial liabilities, the IPSASB identified that the following basic requirements should be fulfilled:

- The arrangement is contractual in nature; and
- The arrangement gives rise to a contractual right or obligation to receive or deliver cash or another financial asset, or exchange financial assets under favorable or unfavorable conditions.

BC19. The IPSASB concluded that assets arising from non-exchange revenue transactions could meet these requirements. In particular, it noted that the nature of arrangements with donors may be contractual in nature,

and may be settled by transferring cash or another financial asset from the donor to the recipient. In these instances, assets arising from non-exchange revenue transactions were financial assets.

BC20. Therefore, when this Standard was developed, the IPSASB agreed that, for financial assets arising from non-exchange transactions, an entity should apply the requirements of IPSAS 23 in conjunction with IPSAS 28. In particular, an entity should consider the principles in IPSAS 28 in considering whether an inflow of resources from a non-exchange revenue transaction resulted in a liability or a transaction that evidences a residual interest in the net assets of the entity, i.e., an equity instrument.

BC21. The IPSASB considered whether liabilities arising from non-exchange revenue transactions were financial liabilities. Liabilities were recognized in IPSAS 23 when an entity received an inflow of resources that was subject to specific conditions. Conditions on a transfer of resources imposed on an entity by a transferor required that the resources were used in a certain way, often to provide goods or services to third parties, or were returned to the transferor. This gave rise to an obligation to perform in terms of the agreement. At initial recognition, an entity recognized the resources as an asset and, where they are subject to conditions, recognized a corresponding liability.

BC22. While developing this Standard, the IPSASB considered whether the liability initially recognized is in the nature of a financial liability or another liability, e.g., a provision. The IPSASB agreed that, at the time the asset is recognized, the liability is not usually a financial liability as the entity's obligation is to fulfil the terms and conditions of the arrangement by utilizing the resources as intended, usually by providing goods or services to third parties over a period of time. If after initial recognition, the entity cannot the fulfil the terms of the arrangement and is required to return the resources to the transferor, an entity would assess at this stage whether the liability is a financial liability considering the requirements set out in paragraph BC18 and the definitions of a financial instrument and a financial liability. In rare circumstances, a financial liability may arise from conditions imposed on a transfer of resources as part of a non-exchange revenue transaction. The IPSASB may consider such a scenario as part of a future project.

BC23. While developing this Standard, the IPSASB also noted that other liabilities may arise from non-exchange revenue transactions after initial recognition. For example, an entity may receive resources under an arrangement that required the resources to be returned only after the occurrence or non-occurrence of a future event. An entity assesses whether other liabilities arising from non-exchange revenue transactions are financial liabilities by considering whether the requirements in paragraph BC18 have been fulfilled and the definitions of a financial instrument and a financial liability have been met.

Other

Interpretations Developed by the International Financial Reporting Interpretations Committee

BC24. The IPSASB considered whether International Financial Reporting Interpretations Committee Interpretation (IFRIC) 2, *Members' Shares in Co-operative Entities and Similar Instruments* and International Financial Reporting Interpretations Committee Interpretation (IFRIC) 11, *IFRS 2—Group and Treasury Share Transactions* were relevant for the types of instruments entered into by governments and entities in the public sector.

BC25. When this Standard was issued, the IPSASB considered that IFRIC 11 is not relevant for the types of instruments entered into in the public sector as it deals with share-based payment transactions. While share-based payments may be common in [Government Business Enterprises (GBE's)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016), they do not occur frequently in entities that are not GBE's. As a result, the IPSASB has not included any principles from IFRIC 11 in IPSAS 28.

BC26. IFRIC 2 provides guidance on the application of IAS 32 to members' shares in co-operative entities and similar instruments. There is a strong link between IAS 32 and IFRIC 2 in relation to puttable financial instruments and obligations arising on liquidation. As the text of IAS 32 that deals with puttable financial instruments and obligations arising on liquidation has been retained in IPSAS 28, IFRIC 2 provides additional guidance to users of IPSAS 28 in applying those principles to members' interests in co-operative entities. Therefore, the principles and examples from IFRIC 2 have been included in IPSAS 28 as an authoritative appendix.

Revision of IPSAS 28 as a result of IASB's *Improvements to IFRS* issued in May 2012

BC27. The IPSASB reviewed the revisions to IAS 32 included in the *Improvements to IFRS* issued by the IASB in May 2012 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 28 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC28. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Illustrative Examples

These examples accompany, but are not part of, IPSAS 28.

Accounting for Contracts on Equity Instruments of an Entity

IE1. The following examples illustrate the application of paragraphs 13–32 and IPSAS 41 to the accounting for contracts on an entity's own equity instruments. In these examples, monetary amounts are denominated in "currency units" (CU).

Example 1: Forward to Buy Shares

IE2. This example illustrates the journal entries for forward purchase contracts on an entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below). To simplify the illustration, it is assumed that no dividends are paid on the underlying shares (i.e., the "carry return" is zero) so that the present value of the forward price equals the spot price when the fair value of the forward contract is zero. The fair value of the forward has been computed as the difference between the market share price and the present value of the fixed forward price.

Assumptions:

Contract date	February 1, 20X2
Maturity date	January 31, 20X3
Market price per share on February, 1 20X2	CU100
Market price per share on December, 31 20X2	CU110
Market price per share on January, 31 20X3	CU106
Fixed forward price to be paid on January, 31 20X3	CU104
Present value of forward price on February, 1 20X2	CU100
Number of shares under forward contract	1,000
Fair value of forward on February, 1 20X2	CU0
Fair value of forward on December, 31 20X2	CU6,300
Fair value of forward on January, 31 20X3	CU2,000

(a) **Cash for Cash ("Net Cash Settlement")**

IE3. In this subsection, the forward purchase contract on the entity's own shares will be settled net in cash, i.e., there is no receipt or delivery of the entity's own shares upon settlement of the forward contract.

On February 1, 20X2, Entity A enters into a contract with Entity B to receive the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 in exchange for a payment of CU104,000 in cash (i.e., CU104 per share) on January 31, 20X3. The contract will be settled net in cash. Entity A records the following journal entries.

February 1, 20X2

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the forward contract on February 1, 20X2 is zero.

No entry is required because the fair value of the derivative is zero and no cash is paid or received.

December 31, 20X2

On December 31, 20X2, the market price per share has increased to CU110 and, as a result, the fair value of the forward contract has increased to CU6,300.

Dr	Forward asset	CU6,300		
Cr	Gain			CU6,300

To record the increase in the fair value of the forward contract.

January 31, 20X3

On January 31, 20X3, the market price per share has decreased to CU106. The fair value of the forward contract is CU2,000 ([CU106 × 1,000] – CU104,000).

On the same day, the contract is settled net in cash. Entity A has an obligation to deliver CU104,000 to Entity B and Entity B has an obligation to deliver CU106,000 (CU106 × 1,000) to Entity A, so Entity B pays the net amount of CU2,000 to Entity A.

Dr	Loss	CU4,300		
Cr	Forward asset			CU4,300

To record the decrease in the fair value of the forward contract (i.e., CU4,300 = CU6,300 – CU2,000).

Dr	Cash	CU2,000		
Cr	Forward asset			CU2,000

To record the settlement of the forward contract.

(b) **Shares for Shares (“Net Share Settlement”)**

IE4. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A’s journal entries are the same as those shown in (a) above, except for recording the settlement of the forward contract, as follows:

January 31, 20X3

The contract is settled net in shares. Entity A has an obligation to deliver CU104,000 (CU104 × 1,000) worth of its shares to Entity B and Entity B has an obligation to deliver CU106,000 (CU106 × 1,000) worth of shares to Entity A. Thus, Entity B delivers a net amount of CU2,000 (CU106,000 – CU104,000) worth of shares to Entity A, i.e., 18.9 shares (CU2,000/CU106).

Dr	Net assets/equity	CU2,000		

	Cr Forward asset		CU2,000

To record the settlement of the forward contract.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE5. Assume the same facts as in (a) except that settlement will be made by delivering a fixed amount of cash and receiving a fixed number of Entity A's shares. Similarly to (a) and (b) above, the price per share that Entity A will pay in one year is fixed at CU104. Accordingly, Entity A has an obligation to pay CU104,000 in cash to Entity B (CU104 × 1,000) and Entity B has an obligation to deliver 1,000 of Entity A's outstanding shares to Entity A in one year. Entity A records the following journal entries.

February 1, 20X2

Dr		Net assets/equity	CU100,000	
	Cr	Liability		CU100,000

To record the obligation to deliver CU104,000 in one year at its present value of CU100,000 discounted using an appropriate interest rate (see IPSAS 41, paragraph AG115).

December 31, 20X2

Dr		Interest expense	CU3,660	
	Cr	Liability		CU3,660

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

January 31, 20X3

Dr		Interest expense	CU340	
	Cr	Liability		CU340

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

Entity A delivers CU104,000 in cash to Entity B and Entity B delivers 1,000 of Entity A's shares to Entity A.

Dr		Liability	CU104,000	
	Cr	Cash		CU104,000

To record the settlement of the obligation to redeem Entity A's own shares for cash.

(d) **Settlement Options**

IE6. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the forward repurchase contract is a financial asset or a financial liability. If one of the settlement alternatives is to exchange cash for shares ((c) above), Entity A recognizes a liability for the

obligation to deliver cash, as illustrated in (c) above. Otherwise, Entity A accounts for the forward contract as a derivative.

Example 2: Forward to Sell Shares

IE7. This example illustrates the journal entries for forward sale contracts on an entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by receiving cash in exchange for shares. It also discusses the effect of settlement options (see (d) below). To simplify the illustration, it is assumed that no dividends are paid on the underlying shares (i.e., the "carry return" is zero) so that the present value of the forward price equals the spot price when the fair value of the forward contract is zero. The fair value of the forward has been computed as the difference between the market share price and the present value of the fixed forward price.

Assumptions:

Contract date	February 1, 20X2
Maturity date	January 31, 20X3
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU110
Market price per share on January 31, 20X3	CU106
Fixed forward price to be paid on January 31, 20X3	CU104
Present value of forward price on February 1, 20X2	CU100
Number of shares under forward contract	1,000
Fair value of forward on February 1, 20X2	CU0
Fair value of forward on December 31, 20X2	(CU6,300)
Fair value of forward on January 31, 20X3	(CU2,000)

(a) **Cash for Cash ("Net Cash Settlement")**

IE8. On February 1, 20X2, Entity A enters into a contract with Entity B to pay the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 in exchange for CU104,000 in cash (i.e., CU104 per share) on January 31, 20X3. The contract will be settled net in cash. Entity A records the following journal entries.

February 1, 20X2

No entry is required because the fair value of the derivative is zero and no cash is paid or received.

December 31, 20X2

Dr		Loss	CU6,300	
	Cr	Forward liability		CU6,300

To record the decrease in the fair value of the forward contract.

January 31, 20X3

Dr		Forward liability	CU4,300	
	Cr	Gain		CU4,300

To record the increase in the fair value of the forward contract (i.e., CU4,300 = CU6,300 – CU2,000).

The contract is settled net in cash. Entity B has an obligation to deliver CU104,000 to Entity A, and Entity A has an obligation to deliver CU106,000 (CU106 × 1,000) to Entity B. Thus, Entity A pays the net amount of CU2,000 to Entity B.

Dr		Forward liability	CU2,000	
	Cr	Cash		CU2,000

To record the settlement of the forward contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE9. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a), except:

January 31, 20X3

The contract is settled net in shares. Entity A has a right to receive CU104,000 (CU104 × 1,000) worth of its shares and an obligation to deliver CU106,000 (CU106 × 1,000) worth of its shares to Entity B. Thus, Entity A delivers a net amount of CU2,000 (CU106,000 – CU104,000) worth of its shares to Entity B, i.e., 18.9 shares (CU2,000/CU106).

Dr		Forward liability	CU2,000	
	Cr	Net assets/equity		CU2,000

To record the settlement of the forward contract. The issue of the entity's own shares is treated as a transaction in net assets/equity.

(c) **Shares for Cash ("Gross Physical Settlement")**

IE10. Assume the same facts as in (a), except that settlement will be made by receiving a fixed amount of cash and delivering a fixed number of the entity's own shares. Similarly to (a) and (b) above, the price per share that Entity A will pay in one year is fixed at CU104. Accordingly, Entity A has a right to receive CU104,000 in cash (CU104 × 1,000) and an obligation to deliver 1,000 of its own shares in one year. Entity A records the following journal entries.

February 1, 20X2

No entry is made on February 1. No cash is paid or received because the forward has an initial fair value of zero. A forward contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash or another financial asset meets the definition of an equity instrument because it cannot be settled otherwise than through the delivery of shares in exchange for cash.

December 31, 20X2

No entry is made on December 31, because no cash is paid or received and a contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.

January 31, 20X3

On January 31, 20X3, Entity A receives CU104,000 in cash and delivers 1,000 shares.

Dr	Cash		CU104,000	
Cr	Net assets/equity			CU104,000

To record the settlement of the forward contract.

(d) **Settlement Options**

IE11. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the forward contract is a financial asset or a financial liability. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A repurchasing a fixed number of its own shares in exchange for paying a fixed amount of cash or another financial asset. Entity A recognizes a derivative asset or liability, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 3: Purchased Call Option on Shares

IE12. This example illustrates the journal entries for a purchased call option right on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for the entity's own shares. It also discusses the effect of settlement options (see (d) below):

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3 (European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Reporting entity (Entity A)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU104
Market price per share on January 31, 20X3	CU104
Fixed exercise price to be paid on January 31, 20X3	CU102
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU3,000
Fair value of option on January 31, 20X3	CU2,000

(a) **Cash for Cash ("Net Cash Settlement")**

IE13. On February 1, 20X2, Entity A enters into a contract with Entity B that gives Entity B the obligation to deliver, and Entity A the right to receive the fair value of 1,000 of Entity A's own ordinary shares as of January 31,

20X3 in exchange for CU102,000 in cash (i.e., CU102 per share) on January 31, 20X3, if Entity A exercises that right. The contract will be settled net in cash. If Entity A does not exercise its right, no payment will be made. Entity A records the following journal entries.

February 1, 20X2

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the option contract on February 1, 20X2 is CU5,000, which Entity A pays to Entity B in cash on that date. On that date, the option has no intrinsic value, only time value, because the exercise price of CU102 exceeds the market price per share of CU100 and it would therefore not be economic for Entity A to exercise the option. In other words, the call option is out of the money.

Dr		Call option asset	CU5,000	
	Cr	Cash		CU5,000

To recognize the purchased call option.

December 31, 20X2

On December 31, 20X2, the market price per share has increased to CU104. The fair value of the call option has decreased to CU3,000, of which CU2,000 is intrinsic value ([CU104 – CU102] × 1,000), and CU1,000 is the remaining time value.

Dr		Loss	CU2,000	
	Cr	Call option asset		CU2,000

To record the decrease in the fair value of the call option.

January 31, 20X3

On January 31, 20X3, the market price per share is still CU104. The fair value of the call option has decreased to CU2,000, which is all intrinsic value ([CU104 – CU102] × 1,000) because no time value remains.

Dr		Loss	CU1,000	
	Cr	Call option asset		CU1,000

To record the decrease in the fair value of the call option.

On the same day, Entity A exercises the call option and the contract is settled net in cash. Entity B has an obligation to deliver CU104,000 (CU104 × 1,000) to Entity A in exchange for CU102,000 (CU102 × 1,000) from Entity A, so Entity A receives a net amount of CU2,000.

Dr		Cash	CU2,000	
	Cr	Call option asset		CU2,000

To record the settlement of the option contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE14. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a) except for recording the settlement of the option contract as follows:

January 31, 20X3

Entity A exercises the call option and the contract is settled net in shares. Entity B has an obligation to deliver CU104,000 (CU104 × 1,000) worth of Entity A's shares to Entity A in exchange for CU102,000 (CU102 × 1,000) worth of Entity A's shares. Thus, Entity B delivers the net amount of CU2,000 worth of shares to Entity A, i.e., 19.2 shares (CU2,000/CU104).

Dr		Net assets/equity	CU2,000	
	Cr	Call option asset		CU2,000

To record the settlement of the option contract. The settlement is accounted for as a treasury share transaction (i.e., no gain or loss).

(c) **Cash for Shares ("Gross Physical Settlement")**

IE15. Assume the same facts as in (a) except that settlement will be made by receiving a fixed number of shares and paying a fixed amount of cash, if Entity A exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU102. Accordingly, Entity A has a right to receive 1,000 of Entity A's own outstanding shares in exchange for CU102,000 (CU102 × 1,000) in cash, if Entity A exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr		Net assets/equity	CU5,000	
	Cr	Cash		CU5,000

To record the cash paid in exchange for the right to receive Entity A's own shares in one year for a fixed price. The premium paid is recognized in net assets/equity.

December 31, 20X2

No entry is made on December 31, because no cash is paid or received and a contract that gives a right to receive a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.

January 31, 20X3

Entity A exercises the call option and the contract is settled gross. Entity B has an obligation to deliver 1,000 of Entity A's shares in exchange for CU102,000 in cash.

Dr		Net assets/equity	CU102,000	
	Cr	Cash		CU102,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE16. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the call option is a financial asset. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A repurchasing a fixed number of its own shares in exchange for paying a fixed amount of cash or another financial asset. Entity A recognizes a derivative asset, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 4: Written Call Option on Shares

IE17. This example illustrates the journal entries for a written call option obligation on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3 (European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Counterparty (Entity B)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU104
Market price per share on January 31, 20X3	CU104
Fixed exercise price to be paid on January 31, 20X3	CU102
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU3,000
Fair value of option on January 31, 20X3	CU2,000

(a) Cash for Cash ("Net Cash Settlement")

IE18. Assume the same facts as in Example 3(a) above except that Entity A has written a call option on its own shares instead of having purchased a call option on them. Accordingly, on February 1, 20X2 Entity A enters into a contract with Entity B that gives Entity B the right to receive and Entity A the obligation to pay the fair value of 1,000 of Entity A's own ordinary shares as of January 31, 20X3 in exchange for CU102,000 in cash (i.e., CU102 per share) on January 31, 20X3, if Entity B exercises that right. The contract will be settled net in cash. If Entity B does not exercise its right, no payment will be made. Entity A records the following journal entries.

February 1, 20X2

Dr		Cash	CU5,000	
	Cr	Call option obligation		CU5,000

To recognize the written call option.

December 31, 20X2

Dr		Call option obligation	CU2,000	
	Cr	Gain		CU2,000

To record the decrease in the fair value of the call option.

January 31, 20X3

Dr		Call option obligation	CU1,000	
	Cr	Gain		CU1,000

To record the decrease in the fair value of the option.

On the same day, Entity B exercises the call option and the contract is settled net in cash. Entity A has an obligation to deliver CU104,000 (CU104 × 1,000) to Entity B in exchange for CU102,000 (CU102 × 1,000) from Entity B, so Entity A pays a net amount of CU2,000.

Dr		Call option obligation	CU2,000	
	Cr	Cash		CU2,000

To record the settlement of the option contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE19. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a), except for recording the settlement of the option contract, as follows:

December 31, 20X3

Entity B exercises the call option and the contract is settled net in shares. Entity A has an obligation to deliver CU104,000 (CU104 × 1,000) worth of Entity A's shares to Entity B in exchange for CU102,000 (CU102 × 1,000) worth of Entity A's shares. Thus, Entity A delivers the net amount of CU2,000 worth of shares to Entity B, i.e., 19.2 shares (CU2,000/CU104).

Dr		Call option obligation	CU2,000	
	Cr	Net assets/equity		CU2,000

To record the settlement of the option contract. The settlement is accounted for as a transaction in net assets/equity.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE20. Assume the same facts as in (a) except that settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash, if Entity B exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU102. Accordingly, Entity B has a right to receive 1,000 of Entity A's own outstanding shares in exchange for CU102,000 (CU102 × 1,000) in cash, if Entity B exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr		Cash	CU5,000	
	Cr	Net assets/equity		CU5,000

To record the cash received in exchange for the obligation to deliver a fixed number of Entity A's own shares in one year for a fixed price. The premium received is recognized in net assets/equity. Upon exercise, the call would result in the issue of a fixed number of shares in exchange for a fixed amount of cash.

December 31, 20X2

No entry is made on December 31 because no cash is paid or received and a contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.

January 31, 20X3

Entity B exercises the call option and the contract is settled gross. Entity A has an obligation to deliver 1,000 shares in exchange for CU102,000 in cash.

Dr		Cash	CU102,000	
	Cr	Net assets/equity		CU102,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE21. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the call option is a financial liability. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A issuing a fixed number of its own shares in exchange for receiving a fixed amount of cash or another financial asset. Entity A recognizes a derivative liability, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 5: Purchased Put Option on Shares

IE22. This example illustrates the journal entries for a purchased put option on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Reporting entity (Entity A)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU95
Market price per share on January 31, 20X3	CU95
Fixed exercise price to be paid on January 31, 20X3	CU98
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU4,000
Fair value of option on January 31, 20X3	CU3,000

(a) **Cash for Cash ("Net Cash Settlement")**

IE23. On February 1, 20X2, Entity A enters into a contract with Entity B that gives Entity A the right to sell, and Entity B the obligation to buy the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 at a strike price of CU98,000 (i.e., CU98 per share) on January 31, 20X3, if Entity A exercises that right. The contract will be settled net in cash. If Entity A does not exercise its right, no payment will be made. Entity A records the following journal entries.

February, 1 20X2

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the option contract on February 1, 20X2 is CU5,000, which Entity A pays to Entity B in cash on that date. On that date, the option has no intrinsic value, only time value, because the exercise price of CU98 is less than the market price per share of CU100. Therefore it would not be economic for Entity A to exercise the option. In other words, the put option is out of the money.

Dr		Put option asset	CU5,000	
	Cr	Cash		CU5,000

To recognize the purchased put option.

December 31, 20X2

On December 31, 20X2 the market price per share has decreased to CU95. The fair value of the put option has decreased to CU4,000, of which CU3,000 is intrinsic value ([CU98 – CU95] × 1,000) and CU1,000 is the remaining time value.

Dr		Loss	CU1,000	
	Cr	Put option asset		CU1,000

To record the decrease in the fair value of the put option.

January 31, 20X3

On January 31, 20X3 the market price per share is still CU95. The fair value of the put option has decreased to CU3,000, which is all intrinsic value ([CU98 – CU95] × 1,000) because no time value remains.

Dr		Loss	CU1,000	
	Cr	Put option asset		CU1,000

To record the decrease in the fair value of the option.

On the same day, Entity A exercises the put option and the contract is settled net in cash. Entity B has an obligation to deliver CU98,000 to Entity A and Entity A has an obligation to deliver CU95,000 (CU95 × 1,000) to Entity B, so Entity B pays the net amount of CU3,000 to Entity A.

Dr		Cash	CU3,000	
	Cr	Put option asset		CU3,000

To record the settlement of the option contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE24. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as shown in (a), except:

January 31, 20X3

Entity A exercises the put option and the contract is settled net in shares. In effect, Entity B has an obligation to deliver CU98,000 worth of Entity A's shares to Entity A, and Entity A has an obligation to deliver CU95,000 worth of Entity A's shares (CU95 × 1,000) to Entity B, so Entity B delivers the net amount of CU3,000 worth of shares to Entity A, i.e., 31.6 shares (CU3,000/CU95).

Dr		Net assets/equity	CU3,000	
	Cr	Put option asset		CU3,000

To record the settlement of the option contract.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE25. Assume the same facts as in (a) except that settlement will be made by receiving a fixed amount of cash and delivering a fixed number of Entity A's shares, if Entity A exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU98. Accordingly, Entity B has an obligation to pay CU98,000 in cash to Entity A (CU98 × 1,000) in exchange for 1,000 of Entity A's outstanding shares, if Entity A exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr		Net assets/equity	CU5,000	
	Cr	Cash		CU5,000

To record the cash received in exchange for the right to deliver Entity A's own shares in one year for a fixed price. The premium paid is recognized directly in net assets/equity. Upon exercise, it results in the issue of a fixed number of shares in exchange for a fixed price.

December 31, 20X2

No entry is made on December 31, because no cash is paid or received and a contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of Entity A.

January 31, 20X3

Entity A exercises the put option and the contract is settled gross. Entity B has an obligation to deliver CU98,000 in cash to Entity A in exchange for 1,000 shares.

Dr		Cash	CU98,000	
	Cr	Net assets/equity		CU98,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE26. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the put option is a financial asset. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A issuing a fixed number of its own shares in exchange for receiving a fixed amount of cash or another financial asset. Entity A recognizes a derivative asset, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

Example 6: Written Put Option on Shares

IE27. This example illustrates the journal entries for a written put option on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

Assumptions:

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Counterparty (Entity B)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU95
Market price per share on January 31, 20X3	CU95
Fixed exercise price to be paid on January 31, 20X3	CU98
Present value of exercise price on February 1, 20X2	CU95
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU4,000
Fair value of option on January 31, 20X3	CU3,000

(a) Cash for Cash ("Net Cash Settlement")

IE28. Assume the same facts as in Example 5(a) above, except that Entity A has written a put option on its own shares instead of having purchased a put option on its own shares. Accordingly, on February, 1 20X2, Entity A enters into a contract with Entity B that gives Entity B the right to receive and Entity A the obligation to pay the fair value of 1,000 of Entity A's outstanding ordinary shares as of January 31, 20X3 in exchange for CU98,000 in cash (i.e., CU98 per share) on January 31, 20X3, if Entity B exercises that right. The contract will be settled net in cash. If Entity B does not exercise its right, no payment will be made. Entity A records the following journal entries.

February 1, 20X2

Dr		Cash	CU5,000	
	Cr	Put option liability		CU5,000

To recognize the written put option.

December 31, 20X2

Dr		Put option liability	CU1,000	
	Cr	Gain		CU1,000

To record the decrease in the fair value of the put option.

January 31, 20X3

Dr		Put option liability	CU1,000	
	Cr	Gain		CU1,000

To record the decrease in the fair value of the put option.

On the same day, Entity B exercises the put option and the contract is settled net in cash. Entity A has an obligation to deliver CU98,000 to Entity B, and Entity B has an obligation to deliver CU95,000 (CU95 × 1,000) to Entity A. Thus, Entity A pays the net amount of CU3,000 to Entity B.

Dr		Put option liability	CU3,000	
	Cr	Cash		CU3,000

To record the settlement of the option contract.

(b) **Shares for Shares ("Net Share Settlement")**

IE29. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those in (a), except for the following:

January 31, 20X3

Entity B exercises the put option and the contract is settled net in shares. In effect, Entity A has an obligation to deliver CU98,000 worth of shares to Entity B, and Entity B has an obligation to deliver CU95,000 worth of Entity A's shares (CU95 × 1,000) to Entity A. Thus, Entity A delivers the net amount of CU3,000 worth of Entity A's shares to Entity B, i.e., 31.6 shares (3,000/95).

Dr		Put option liability	CU3,000	
	Cr	Net assets/equity		CU3,000

To record the settlement of the option contract. The issue of Entity A's own shares is accounted for as a transaction in net assets/equity.

(c) **Cash for Shares ("Gross Physical Settlement")**

IE30. Assume the same facts as in (a) except that settlement will be made by delivering a fixed amount of cash and receiving a fixed number of shares, if Entity B exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU98. Accordingly, Entity A has an obligation to pay CU98,000 in cash to Entity B (CU98 × 1,000) in exchange for 1,000 of Entity A's outstanding shares, if Entity B exercises its option. Entity A records the following journal entries.

February 1, 20X2

Dr		Cash	CU5,000	
	Cr	Net assets/equity		CU5,000

To recognize the option premium received of CU5,000 in net assets/equity.

Dr		Net assets/equity	CU95,000	
	Cr	Liability		CU95,000

To recognize the present value of the obligation to deliver CU98,000 in one year, i.e., CU95,000, as a liability.

December 31, 20X2

Dr		Interest expense	CU2,750	
	Cr	Liability		CU2,750

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

January 31, 20X3

Dr		Interest expense	CU250	
	Cr	Liability		CU250

To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.

On the same day, Entity B exercises the put option and the contract is settled gross. Entity A has an obligation to deliver CU98,000 in cash to Entity B in exchange for CU95,000 worth of shares (CU95 × 1,000).

Dr		Liability	CU98,000	
	Cr	Cash		CU98,000

To record the settlement of the option contract.

(d) **Settlement Options**

IE31. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the written put option is a financial liability. If one of the settlement alternatives is to exchange cash for shares ((c) above), Entity A recognizes a liability for the obligation to deliver cash, as illustrated in (c) above. Otherwise, Entity A accounts for the put option as a derivative liability.

Entities such as Mutual Funds and Co-operatives Whose Share Capital is not Net Assets/Equity

Example 7: Entities with No Net Assets/Equity

IE32. The following example illustrates a format of a statement of financial performance and statement of financial position that may be used by entities such as mutual funds that do not have net assets/equity. Other formats are possible.

Statement of Financial Performance for the year ended December 31, 20X1

	20X1	20X0
	CU	CU
Revenue	2,956	1,718
Total Revenue	2,956	1,718
Expenses (classified by nature or function)	(644)	(614)
Finance costs		
– other finance costs	(47)	(47)
– distributions to unitholders	(50)	(50)
Total Expenses	(741)	(711)
Surplus for the year	2,215	1,007
Change in net assets attributable to unitholders	2,215	1,007

Statement of Financial Position at December 31, 20X1

		20X1		20X0
	CU	CU	CU	CU
ASSETS				
Non-current assets (classified in accordance with IPSAS 1)	91,374		78,484	
Total non-current assets		91,374		78,484
Current assets (classified in accordance with IPSAS 1)	1,422		1,769	
Total current assets		1,422		1,769
Total assets		92,796		80,253
LIABILITIES				
Current liabilities (classified in accordance with IPSAS 1)	647		66	
Total current liabilities		(647)		(66)
Non-current liabilities excluding net assets attributable to unitholders (classified in accordance with IPSAS 1)	280		136	
		(280)		(136)

Statement of Financial Position at December 31, 20X1

Net assets attributable to unitholders	91,869	80,051

Example 8: Entities with Some Net Assets/Equity

IE33. The following example illustrates a format of a statement of financial performance and statement of financial position that may be used by entities whose share capital is not net assets/equity because the entity has an obligation to repay the share capital on demand. Other formats are possible.

Statement of Financial Performance for the year ended December 31, 20X1

	20X1	**20X0**
	CU	CU
Revenue	472	498
Total Revenue	472	498
Expenses (classified by nature or function)	(367)	(396)
Finance costs		
– other finance costs	(4)	(4)
– distributions to members	(50)	(50)
Total Expenses	(421)	(450)
Surplus for the year	51	48
Change in net assets attributable to members	51	48

Statement of Financial Position at December 31, 20X1

		20X1		**20X0**
	CU	CU	CU	CU
ASSETS				
Non-current assets (classified in accordance with IPSAS 1)	908		830	

Statement of Financial Position at December 31, 20X1

Total non-current assets		908		830
Current assets (classified in accordance with IPSAS 1)	383		350	
Total current assets		383		350
Total assets		1,291		1,180
LIABILITIES				
Current liabilities (classified in accordance with IPSAS 1)	372		338	
Share capital repayable on demand	202		161	
Total current liabilities		(574)		(499)
Total assets less current liabilities		717		681
Non-current liabilities (classified in accordance with IPSAS 1)	187		196	
		(187)		(196)
OTHER COMPONENTS OF NET ASSETS/EQUITY(a)				
Reserves, e.g., revaluation surplus, accumulated surplus, etc.	530		485	
		530		485
		717		681
MEMORANDUM NOTE – Total members' interests				
Share capital repayable on demand		202		161
Reserves		530		485
		732		646

(a) In this example, the entity has no obligation to deliver a share of its reserves to its members.

Accounting for Compound Financial Instruments

Example 9: Separation of a Compound Financial Instrument on Initial Recognition

IE34. Paragraph 33 describes how the components of a compound financial instrument are separated by the entity on initial recognition. The following example illustrates how such a separation is made.

IE35. An entity issues 2,000 convertible bonds at the start of year 1. The bonds have a three-year term, and are issued at par with a face value of CU1,000 per bond, giving total proceeds of CU2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 percent. Each bond is convertible at any time up to maturity into 250 ordinary shares. When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9 percent.

IE36. The liability component is measured first, and the difference between the proceeds of the bond issue and the fair value of the liability is assigned to the net assets/equity component. The present value of the liability component is calculated using a discount rate of 9 percent, the market interest rate for similar bonds having no conversion rights, as shown below.

	CU
Present value of the principal – CU2,000,000 payable at the end of three years	1,544,367
Present value of the interest – CU120,000 payable annually in arrears for three years	303,755
Total liability component	1,848,122
Net assets/equity component (by deduction)	151,878
Proceeds of the bond issue	2,000,000

Example 10: Separation of a Compound Financial Instrument with Multiple Embedded Derivative Features

IE37. The following example illustrates the application of paragraph 36 to the separation of a compound financial instrument with multiple embedded derivative features into the liability and net assets/equity component.

IE38. Assume that the proceeds received on the issue of a callable convertible bond are CU60. The value of a similar bond without a call or equity conversion option is CU57. Based on an option pricing model, it is determined that the value to the entity of the embedded call feature in a similar bond without an equity conversion option is CU2. In this case, the value allocated to the liability component under paragraph 36 is CU55 (CU57 – CU2) and the value allocated to the net assets/equity component is CU5 (CU60 – CU55).

Example 11: Repurchase of a Convertible Instrument

IE39. The following example illustrates how an entity accounts for a repurchase of a convertible instrument. For simplicity, at inception, the face amount of the instrument is assumed to be equal to the aggregate carrying amount of the liability and the net assets/equity components in the financial statements, i.e., no original issue premium or discount exists. Also, for simplicity, tax considerations have been omitted from the example.

IE40. On January 1, 20X0, Entity A issued a 10 percent convertible debenture with a face value of CU1,000 maturing on December 31, 20X9. The debenture is convertible into ordinary shares of Entity A at a conversion price of CU25 per share. Interest is payable half-yearly in cash. At the date of issue, Entity A could have issued non-convertible debt with a ten-year term bearing a coupon interest rate of 11 percent.

IE41. In the financial statements of Entity A the carrying amount of the debenture was allocated on issue as follows:

	CU
Liability component	
Present value of 20 half-yearly interest payments of CU50, discounted at 11%	597
Present value of CU1,000 due in 10 years, discounted at 11%, compounded half-yearly	343
	940
Net assets/equity component	
(difference between CU1,000 total proceeds and CU940 allocated above)	60
Total proceeds	1,000

IE42. On January 1, 20X5 the convertible debenture has a fair value of CU1,700.

IE43. Entity A makes a tender offer to the holder of the debenture to repurchase the debenture for CU1,700, which the holder accepts. At the date of repurchase, Entity A could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8 percent.

IE44. The repurchase price is allocated as follows:

	Carrying value	**Fair value**	**Difference**
Liability component:	CU	CU	CU
Present value of 10 remaining half-yearly interest payments of CU50, discounted at 11% and 8%, respectively	377	405	
Present value of CU1,000 due in 5 years, discounted at 11% and 8%, compounded half-yearly, respectively	585	676	
	962	1,081	(119)
Net assets/equity component	60	619(a)	(559)
Total	1,022	1,700	(678)

(a) This amount represents the difference between the fair value amount allocated to the liability component and the repurchase price of CU1,700.

IE45. Entity A recognizes the repurchase of the debenture as follows:

Dr		Liability component	CU962	
Dr		Debt settlement expense (surplus or deficit)	CU119	
	Cr	Cash		CU1,081

To recognize the repurchase of the liability component.

Dr		Net assets/equity	CU619	
	Cr	Cash		CU619

To recognize the cash paid for the net assets/equity component.

IE46. The net assets/equity component remains as net assets/equity, but may be transferred from one line item within net assets/equity to another.

Example 12: Amendment of the Terms of a Convertible Instrument to Induce Early Conversion

IE47. The following example illustrates how an entity accounts for the additional consideration paid when the terms of a convertible instrument are amended to induce early conversion.

IE48. On January 1, 20X0, Entity A issued a 10 percent convertible debenture with a face value of CU1,000 with the same terms as described in Example 9. On January 1, 20X1, to induce the holder to convert the convertible debenture promptly, Entity A reduces the conversion price to CU20 if the debenture is converted before March 1, 20X1 (i.e., within 60 days).

IE49. Assume the market price of Entity A's ordinary shares on the date the terms are amended is CU40 per share. The fair value of the incremental consideration paid by Entity A is calculated as follows:

Number of ordinary shares to be issued to debenture holders under *amended* conversion terms:		
Face amount	CU1,000	
New conversion price	CU20	per share
Number of ordinary shares to be issued on conversion	50	shares

Number of ordinary shares to be issued to debenture holders under **original** *conversion terms:*		
Face amount	CU1,000	
Original conversion price	/CU25	per share
Number of ordinary shares to be issued on conversion	40	Shares
Number of incremental ordinary shares issued upon conversion	10	Shares
Value of **incremental** *ordinary shares issued upon conversion*		
CU40 per share x 10 incremental shares	CU400	

IE50. The incremental consideration of CU400 is recognized as a loss in surplus or deficit.

COMPARISON WITH IAS 32

IPSAS 28, *Financial Instruments: Presentation* is drawn primarily from IAS 32, *Financial Instruments: Presentation* (issued originally in 2003, including amendments up to December 31, 2008). The main differences between IPSAS 28 and IAS 32 are as follows:

- IAS 32 allows entities to treat financial guarantee contracts as insurance contracts where entities have previously asserted that such contracts are insurance contracts. IPSAS 28 allows a similar election, except that entities need not have explicitly asserted that financial guarantees are insurance contracts.
- In certain instances, IPSAS 28 uses different terminology from IAS 32. The most significant examples are the use of the terms “statement of financial performance” and “net assets/equity.” The equivalent terms in IAS 32 are “statement of comprehensive income or separate income statement (if presented)” and “equity.”
- IPSAS 28 does not distinguish between “revenue” and “income.” IAS 32 distinguishes between “revenue” and “income,” with “income” having a broader meaning than the term “revenue.”
- IPSAS 28 contains additional Application Guidance dealing with the identification of arrangements that are, in substance, contractual.
- IPSAS 28 contains additional Application Guidance on when assets and liabilities arising from non-exchange revenue transactions are financial assets or financial liabilities.
- Principles from IFRIC 2, *Members’ Shares in Co-operative Entities and Similar Instruments* have been included as an Appendix in IPSAS 28.
- The transitional provisions in IPSAS 28 differ from those in IAS 32. This is because IPSAS 28 provides transitional provisions for those entities applying this Standard for the first time or those applying accrual accounting for the first time.

IPSAS 29, *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 39, *Financial Instruments: Recognition and Measurement*, International Financial Reporting Interpretations Committee (IFRIC®) Interpretation 9, *Reassessment of Embedded Derivatives*, (IFRIC 9) and Interpretation 16, *Hedges of a Net Investment in a Foreign Operation* (IFRIC 16) published by the International Accounting Standards Board (IASB®). Extracts from IAS 39, IFRIC 9, and IFRIC 16 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 29, *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 29, *Financial Instruments: Recognition and Measurement* was issued in January 2010.

Since then, IPSAS 29 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 29

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
1	Deleted	IPSAS 41 August 2018
2	Amended	IPSAS 32 October 2011 IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016 IPSAS 40 January 2017 IPSAS 41 August 2018
3	Deleted	IPSAS 41 August 2018
4	Deleted	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
5	Deleted	IPSAS 41 August 2018
6	Deleted	IPSAS 41 August 2018
7	Deleted	*The Applicability of IPSAS* April 2016
8	Deleted	The Applicability of IPSAS April 2016
9	Amended	IPSAS 41 August 2018
10	Amended	IPSAS 41 August 2018
11–79	Deleted	IPSAS 41 August 2018
80	Amended	IPSAS 41 August 2018
88	Deleted	IPSAS 41 August 2018
89	Amended	IPSAS 35 January 2015
98	Amended	IPSAS 41 August 2018
99	Amended	IPSAS 41 August 2018
101	Amended	IPSAS 41 August 2018
102	Amended	IPSAS 41 August 2018
107	Amended	IPSAS 41 August 2018
108	Amended	IPSAS 41 August 2018
109	Amended	IPSAS 41 August 2018
111	Amended	IPSAS 41 August 2018
112	Amended	IPSAS 41 August 2018
113	Amended	IPSAS 41 August 2018
Heading above paragraph 113A	New	*Improvements to IPSAS* January 2022
113A	New	*Improvements to IPSAS* January 2022
113B	New	*Improvements to IPSAS* January 2022
113C	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113D	New	*Improvements to IPSAS* January 2022
113D	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113E	New	*Improvements to IPSAS* January 2022
113E	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113F	New	*Improvements to IPSAS* January 2022
113F	New	*Improvements to IPSAS* January 2022

Paragraph Affected	How Affected	Affected By
113G	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113H	New	*Improvements to IPSAS* January 2022
113H	New	*Improvements to IPSAS* January 2022
113I	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113J	New	*Improvements to IPSAS* January 2022
113J	New	*Improvements to IPSAS* January 2022
113K	New	*Improvements to IPSAS* January 2022
113L	New	*Improvements to IPSAS* January 2022
113M	New	*Improvements to IPSAS* January 2022
113N	New	*Improvements to IPSAS* January 2022
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113S	New	*Improvements to IPSAS* January 2022
113T	New	*Improvements to IPSAS* January 2022
113U	New	*Improvements to IPSAS* January 2022
Headings above paragraph 113V	New	*Improvements to IPSAS* January 2022
113V	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113W	New	*Improvements to IPSAS* January 2022
113W	New	*Improvements to IPSAS* January 2022
113X	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113Y	New	*Improvements to IPSAS* January 2022
113Y	New	*Improvements to IPSAS* January 2022
113Z	New	*Improvements to IPSAS* January 2022
Heading above paragraph 113ZA	New	*Improvements to IPSAS* January 2022
113ZA	New	*Improvements to IPSAS* January 2022
113ZB	New	*Improvements to IPSAS* January 2022
113ZC	New	*Improvements to IPSAS* January 2022

Paragraph Affected	How Affected	Affected By
114	Deleted	IPSAS 33 January 2015
115	Deleted	IPSAS 33 January 2015
116	Deleted	IPSAS 33 January 2015
117	Deleted	IPSAS 33 January 2015
118	Deleted	IPSAS 33 January 2015
119	Deleted	IPSAS 33 January 2015
120	Deleted	IPSAS 33 January 2015
121	Deleted	IPSAS 33 January 2015
122	Deleted	IPSAS 33 January 2015
123	Deleted	IPSAS 33 January 2015
125A	Amended	IPSAS 32 October 2011 IPSAS 43 January 2022
125B	New	IPSAS 33 January 2015
125C	New	IPSAS 35 January 2015 IPSAS 37 January 2015
125D	New	*Improvements to IPSAS* April 2016
125E	New	*The Applicability of IPSAS* April 2016
125F	New	IPSAS 39 July 2016
125G	New	IPSAS 40 January 2017
125H	Amended	*COVID-19: Deferral of Effective Dates* November 2020
125I	New	*Improvements to IPSAS* January 2022
125J	New	*Improvements to IPSAS* January 2022
125K	New	*Improvements to IPSAS* January 2022
125L	New	*Improvements to IPSAS* January 2022
125M	New	*Improvements to IPSAS* January 2022
126	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
AG35	Amended	IPSAS 40 January 2017
AG51	Amended	IPSAS 35 January 2015
AG52	Amended	IPSAS 35 January 2015

Paragraph Affected	How Affected	Affected By
AG53	Amended	IPSAS 35 January 2015
AG1–AG126	Deleted	IPSAS 41 August 2018
AG128	Amended	IPSAS 41 August 2018
AG129	Deleted	IPSAS 41 August 2018
AG131	Amended	IPSAS 40 January 2017
AG134	Amended	IPSAS 41 August 2018
AG156A	New	IPSAS 41 August 2018
AG157	Amended	IPSAS 41 August 2018
AG161	Amended	IPSAS 41 August 2018
B1–B7	Deleted	IPSAS 41 August 2018
C2	Amended	IPSAS 37 January 2015
A.1–G.2	Deleted	IPSAS 41 August 2018
IE32–IE50	Deleted	IPSAS 41 August 2018

IPSAS 29, *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*

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Illustrative Examples
Comparison with IAS 39

International Public Sector Accounting Standard 29, *Financial Instruments: Recognition and Measurement*, is set out in paragraphs 1–126. All the paragraphs have equal authority. IPSAS 29 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. [Deleted]

Scope

2. **This Standard shall be applied by all entities to all financial instruments within the scope of IPSAS 41, *Financial Instruments* if, and to the extent that:**

   (a) **IPSAS 41 permits the hedge accounting requirements of this Standard to be applied; and**

   (b) **The financial instrument is part of a hedging relationship that qualifies for hedge accounting in accordance with this Standard.**

3–8 [Deleted]

Definitions

9. The terms defined in IPSAS 28 and IPSAS 41 are used in this Standard with the meanings specified in paragraph 9 of IPSAS 28 and paragraph 9 of IPSAS 41. IPSAS 28 and IPSAS 41 define the following terms:

   - Amortized cost of a financial asset or financial liability;
   - Derecognition;
   - Derivative;
   - Effective interest method;
   - Effective interest rate;
   - Equity instrument;
   - Financial asset;
   - Financial instrument;
   - Financial liability;
   - Firm commitment;
   - Forecast transaction;

   and provides guidance on applying those definitions.

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

   Definitions relating to hedge accounting

   A <u>hedging instrument</u> is a designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item (paragraphs 81–86 and Appendix A paragraphs AG127–AG130 elaborate on the definition of a hedging instrument).

   A <u>hedged item</u> is an asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged (paragraphs 87–94 and Appendix A paragraphs AG131–AG141 elaborate on the definition of hedged items).

Hedge effectiveness is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument (see Appendix A paragraphs AG145–AG156).

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

11–79. [Deleted]

Hedging

80. **If an entity applies IPSAS 41 and has not chosen as its accounting policy to continue to apply the hedge accounting requirements of this Standard (see paragraph 177 of IPSAS 41), it shall apply the hedge accounting requirements in paragraphs 113–155 of IPSAS 41. However, for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities, an entity may, in accordance with paragraph 115 of IPSAS 41, apply the hedge accounting requirements in this Standard instead of those in IPSAS 41. In that case the entity must also apply the specific requirements for fair value hedge accounting for a portfolio hedge of interest rate risk (see paragraphs 91, 100 and AG157–AG175).**

Hedging Instruments

Qualifying Instruments

81. This Standard does not restrict the circumstances in which a derivative may be designated as a hedging instrument provided the conditions in paragraph 98 are met, except for some written options (see Appendix A paragraph AG127). However, a non-derivative financial asset or non-derivative financial liability may be designated as a hedging instrument only for a hedge of a foreign currency risk.

82. For hedge accounting purposes, only instruments that involve a party external to the reporting entity (i.e., external to the economic entity or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within an economic entity or divisions within an entity may enter into hedging transactions with other entities within the economic entity or divisions within the entity, any such transactions within the economic entity are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the economic entity. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the economic entity provided that they are external to the individual entity that is being reported on.

Designation of Hedging Instruments

83. There is normally a single fair value measure for a hedging instrument in its entirety, and the factors that cause changes in fair value are co-dependent. Thus, a hedging relationship is designated by an entity for a hedging instrument in its entirety. The only exceptions permitted are:

    (a) Separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and excluding change in its time value; and

    (b) Separating the interest element and the spot price of a forward contract.

    These exceptions are permitted because the intrinsic value of the option and the premium on the forward can generally be measured separately. A dynamic hedging strategy that assesses both the intrinsic value and time value of an option contract can qualify for hedge accounting.

84. A proportion of the entire hedging instrument, such as 50 percent of the notional amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging relationship may not be designated for only a portion of the time period during which a hedging instrument remains outstanding.

85. A single hedging instrument may be designated as a hedge of more than one type of risk provided that (a) the risks hedged can be identified clearly; (b) the effectiveness of the hedge can be demonstrated; and (c) it is possible to ensure that there is specific designation of the hedging instrument and different risk positions.

86. Two or more derivatives, or proportions of them (or, in the case of a hedge of currency risk, two or more non-derivatives or proportions of them, or a combination of derivatives and non-derivatives or proportions of them), may be viewed in combination and jointly designated as the hedging instrument, including when the risk(s) arising from some derivatives offset(s) those arising from others. However, an interest rate collar or other derivative instrument that combines a written option and a purchased option does not qualify as a hedging instrument if it is, in effect, a net written option (for which a net premium is received). Similarly, two or more instruments (or proportions of them) may be designated as the hedging instrument only if none of them is a written option or a net written option.

Hedged Items

Qualifying Items

87. A hedged item can be a recognized asset or liability, an unrecognized firm commitment, a highly probable forecast transaction or a net investment in a foreign operation. The hedged item can be (a) a single asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation, (b) a group of assets, liabilities, firm commitments, highly probable forecast transactions or net investments in foreign operations with similar risk characteristics, or (c) in a portfolio hedge of interest rate risk only, a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged.

88. [Deleted]

89. For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities in the same economic entity only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the economic entity except for the consolidated financial statements of an investment entity, as defined in IPSAS 35, where transactions between an investment entity and its controlled entities measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements. As an exception, the foreign currency risk of monetary item within an economic entity (e.g., a payable/receivable between two controlled entities) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. In accordance with IPSAS 4, foreign exchange rate gains and losses on monetary items within an economic entity are not fully eliminated on consolidation when the monetary item is transacted between two entities within the economic entity that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast transaction within the economic entity may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated surplus or deficit.

Designation of Financial Items as Hedged Items

90. If the hedged item is a financial asset or financial liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value (such as one or more selected contractual cash flows or portions of them or a percentage of the fair value) provided that effectiveness can be measured. For example, an identifiable and separately measurable portion of the interest rate exposure of an interest-bearing asset or interest-bearing liability may be designated as the hedged risk (such as a risk-free interest

rate or benchmark interest rate component of the total interest rate exposure of a hedged financial instrument).

91. In a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only in such a hedge), the portion hedged may be designated in terms of an amount of a currency (e.g., an amount of dollars, euro, pounds or rand) rather than as individual assets (or liabilities). Although the portfolio may, for risk management purposes, include assets and liabilities, the amount designated is an amount of assets or an amount of liabilities. Designation of a net amount including assets and liabilities is not permitted. The entity may hedge a portion of the interest rate risk associated with this designated amount. For example, in the case of a hedge of a portfolio containing prepayable assets, the entity may hedge the change in fair value that is attributable to a change in the hedged interest rate on the basis of expected, rather than contractual, repricing dates. When the portion hedged is based on expected repricing dates, the effect that changes in the hedged interest rate have on those expected repricing dates shall be included when determining the change in the fair value of the hedged item. Consequently, if a portfolio that contains prepayable items is hedged with a non-prepayable derivative, ineffectiveness arises if the dates on which items in the hedged portfolio are expected to prepay are revised, or actual prepayment dates differ from those expected.

Designation of Non-Financial Items as Hedged Items

92. **If the hedged item is a non-financial asset or non-financial liability, it shall be designated as a hedged item (a) for foreign currency risks, or (b) in its entirety for all risks, because of the difficulty of isolating and measuring the appropriate portion of the cash flows or fair value changes attributable to specific risks other than foreign currency risks.**

Designation of Groups of Items as Hedged Items

93. Similar assets or similar liabilities shall be aggregated and hedged as a group only if the individual assets or individual liabilities in the group share the risk exposure that is designated as being hedged. Furthermore, the change in fair value attributable to the hedged risk for each individual item in the group shall be expected to be approximately proportional to the overall change in fair value attributable to the hedged risk of the group of items.

94. Because an entity assesses hedge effectiveness by comparing the change in the fair value or cash flow of a hedging instrument (or group of similar hedging instruments) and a hedged item (or group of similar hedged items), comparing a hedging instrument with an overall net position (e.g., the net of all fixed rate assets and fixed rate liabilities with similar maturities), rather than with a specific hedged item, does not qualify for hedge accounting.

Hedge Accounting

95. Hedge accounting recognizes the offsetting effects on surplus or deficit of changes in the fair values of the hedging instrument and the hedged item.

96. **Hedging relationships are of three types:**

(a) **Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect surplus or deficit.**

(b) **Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect surplus or deficit.**

(c) **Hedge of a net investment in a foreign operation as defined in IPSAS 4.**

97. A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.

98. **A hedging relationship qualifies for hedge accounting under paragraphs 99–113 if, and only if, all of the following conditions are met.**

(a) **At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.**

(b) **The hedge is expected to be highly effective (see Appendix A paragraphs AG145–AG156) in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.**

(c) **For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect surplus or deficit.**

(d) **The effectiveness of the hedge can be reliably measured, i.e., the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.**

(e) **The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.**

Fair Value Hedges

99. **If a fair value hedge meets the conditions in paragraph 98 during the period, it shall be accounted for as follows:**

(a) **The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IPSAS 4 (for a non-derivative hedging instrument) shall be recognized in surplus or deficit; and**

(b) **The gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in surplus or deficit. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in surplus or deficit applies if the hedged item is a financial asset measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41.**

100. For a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities (and only in such a hedge), the requirement in paragraph 99(b) may be met by presenting the gain or loss attributable to the hedged item either:

(a) In a single separate line item within assets, for those repricing time periods for which the hedged item is an asset; or

(b) In a single separate line item within liabilities, for those repricing time periods for which the hedged item is a liability.

The separate line items referred to in (a) and (b) above shall be presented next to financial assets or financial liabilities. Amounts included in these line items shall be removed from the statement of financial position when the assets or liabilities to which they relate are derecognized.

101. If only particular risks attributable to a hedged item are hedged, recognized changes in the fair value of the hedged item unrelated to the hedged risk are recognized as set out in paragraph 101 of IPSAS 41.

102. **An entity shall discontinue prospectively the hedge accounting specified in paragraph 99 if:**

(a) **The hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:**

(i) **As a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organization' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organization or a client of a clearing member of a clearing organization, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.**

(ii) **Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.**

(b) **The hedge no longer meets the criteria for hedge accounting in paragraph 98; or**

(c) **The entity revokes the designation.**

103. **Any adjustment arising from paragraph 99(b) to the carrying amount of a hedged financial instrument for which the effective interest method is used (or, in the case of a portfolio hedge of interest rate risk, to the separate line item in the statement of financial position described in paragraph 100) shall be amortized to surplus or deficit. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The adjustment is based on a recalculated effective interest rate at the date amortization begins. However, if, in the case of a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only in such a hedge), amortizing using a recalculated effective interest rate is not practicable, the adjustment shall be amortized using a straight-line method. The adjustment shall be amortized fully by maturity of the financial instrument or, in the case of a portfolio hedge of interest rate risk, by expiry of the relevant repricing time period.**

104. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in surplus or deficit (see paragraph 99(b)). The changes in the fair value of the hedging instrument are also recognized in surplus or deficit.

105. When an entity enters into a firm commitment to acquire an asset or assume a liability that is a hedged item in a fair value hedge, the initial carrying amount of the asset or liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the firm commitment attributable to the hedged risk that was recognized in the statement of financial position.

Cash Flow Hedges

106. **If a cash flow hedge meets the conditions in paragraph 98 during the period, it shall be accounted for as follows:**

(a) **The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 98) shall be recognized directly in net assets/equity through the statement of changes in net assets/equity; and**

(b) **The ineffective portion of the gain or loss on the hedging instrument shall be recognized in surplus or deficit.**

107. More specifically, a cash flow hedge is accounted for as follows:

(a) The separate component of net assets/equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):

(i) The cumulative gain or loss on the hedging instrument from inception of the hedge; and

(ii) The cumulative change in fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge;

(b) Any remaining gain or loss on the hedging instrument or designated component of it (that is not an effective hedge) is recognized in surplus or deficit; and

(c) If an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 83, 84, and 98(a)), that excluded component of gain or loss is recognized in accordance with paragraph 101 of IPSAS 41.

108. **If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in net assets/equity in accordance with paragraph 106 shall be reclassified into surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects surplus or deficit (such as in the periods that interest revenue or interest expense is recognized). However, if an entity expects that all or a portion of a loss recognized directly in net assets/equity will not be recovered in one or more future periods, it shall reclassify into surplus or deficit as a reclassification adjustment the amount that is not expected to be recovered.**

109. **If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the entity shall adopt (a) or (b) below:**

(a) **It reclassifies the associated gains and losses that were recognized directly in net assets/equity in accordance with paragraph 106 into surplus or deficit as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects surplus or deficit (such as in the periods that depreciation or inventories are recognized as an expense). However, if an entity expects that all or a portion of a loss recognized directly in net assets/equity will not be recovered in one or more future periods, it shall reclassify from net**

assets/equity into surplus or deficit as a reclassification adjustment the amount that is not expected to be recovered.

(b) **It removes the associated gains and losses that were recognized directly in net assets/equity in accordance with paragraph 106, and includes them in the initial cost or other carrying amount of the asset or liability.**

110. **An entity shall adopt either (a) or (b) in paragraph 109 as its accounting policy and shall apply it consistently to all hedges to which paragraph 109 relates.**

111. **For cash flow hedges other than those covered by paragraphs 108 and 109, amounts that had been recognized directly in net assets/equity shall be recognized in surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects surplus or deficit (e.g., when a forecast sale occurs).**

112. **In any of the following circumstances an entity shall discontinue prospectively the hedge accounting specified in paragraphs 106–111:**

(a) **The hedging instrument expires or is sold, terminated or exercised. In this case, the cumulative gain or loss on the hedging instrument that remains recognized directly in net assets/equity from the period when the hedge was effective (see paragraph 106(a)) shall remain separately recognized in net assets/equity until the forecast transaction occurs. When the transaction occurs, paragraph 108, 109, or 111 applies. For the purpose of this subparagraph, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy. Additionally, for the purpose of this subparagraph there is not an expiration or termination of the hedging instrument if:**

(i) **As a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organization' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organization or a client of a clearing member of a clearing organization, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.**

(ii) **Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.**

(b) **The hedge no longer meets the criteria for hedge accounting in paragraph 98. In this case, the cumulative gain or loss on the hedging instrument that remains recognized directly in net assets/equity from the period when the hedge was effective (see paragraph 106(a)) shall remain separately recognized in net assets/equity until the forecast transaction occurs. When the transaction occurs, paragraph 108, 109, or 111 applies.**

(c) **The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognized directly in net assets/equity**

from the period when the hedge was effective (see paragraph 106(a)) shall be recognized in surplus or deficit as a reclassification adjustment. A forecast transaction that is no longer highly probable (see paragraph 98(c)) may still be expected to occur.

(d) **The entity revokes the designation. For hedges of a forecast transaction, the cumulative gain or loss on the hedging instrument that remains recognized directly in net assets/equity from the period when the hedge was effective (see paragraph 106(a)) shall remain separately recognized in net assets/equity until the forecast transaction occurs or is no longer expected to occur. When the transaction occurs, paragraph 108, 109, or 111 applies. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognized directly in net assets/equity shall be recognized in surplus or deficit as a reclassification adjustment.**

Hedges of a Net Investment

113. **Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see IPSAS 4), shall be accounted for similarly to cash flow hedges:**

(a) **The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 98) shall be recognized directly in net assets/equity through the statement of changes in net assets/equity (see IPSAS 1); and**

(b) **The ineffective portion shall be recognized in surplus or deficit.**

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized directly in net assets/equity shall be recognized in surplus or deficit as a reclassification adjustment in accordance with paragraphs 56–57 of IPSAS 4 on disposal of the foreign operation.

Temporary Exceptions from Applying Specific Hedge Accounting Requirements

113A**.** An entity shall apply paragraphs 113D–113N and 125I to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

(a) The interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) The timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

113B. For the purpose of applying paragraphs 113D–113N, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.[1]

113C. Paragraphs 113D–113N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

[1] The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

Highly Probable Requirement for Cash Flow Hedges

113D. For the purpose of applying the requirement in paragraph 98(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the Cumulative Gain or Loss Recognized in Net Assets/Equity

113E. For the purpose of applying the requirement in paragraph 112(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Effectiveness Assessment

113F. For the purpose of applying the requirements in paragraphs 98(b) and AG145(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

113G. For the purpose of applying the requirement in paragraph 98(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG145(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 98, including the prospective assessment in paragraph 98(b), to assess whether the hedging relationship must be discontinued.

Designating Financial Items as Hedged Items

113H. Unless paragraph 113I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.

113I. When an entity, consistent with its hedge documentation, frequently resets (i.e., discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (i.e., the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of Application

113J. An entity shall prospectively cease applying paragraph 113D to a hedged item at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) When the hedging relationship that the hedged item is part of is discontinued.

113K. An entity shall prospectively cease applying paragraph 113E at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and

(b) When the entire cumulative gain or loss recognized in net assets/equity with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

113L. An entity shall prospectively cease applying paragraph 113F:

(a) To a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) To a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 113L(a) or the date specified in paragraph 113L(b), the entity shall prospectively cease applying paragraph 113F to that hedging relationship at the date of discontinuation.

113M. An entity shall prospectively cease applying paragraph 113G to a hedging relationship at the earlier of**:**

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item and of the hedging instrument; and

(b) When the hedging relationship to which the exception is applied is discontinued.

113N. When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 113D–113G to an individual item or financial instrument in accordance with paragraphs 113J, 113K, 113L, or 113M, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

113O. An entity shall prospectively cease applying paragraphs 113H and 113I at the earlier of:

(a) When changes required by interest rate benchmark reform are made to the non-contractually specified risk portion applying paragraph 113P; or

(b) When the hedging relationship in which the non-contractually specified risk portion is designated is discontinued.

Additional Temporary Exceptions Arising from Interest Rate Benchmark Reform

Hedge Accounting

113P. As and when the requirements in paragraphs 113D–113I cease to apply to a hedging relationship (see paragraphs 113J–113O), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 72B–72D of IPSAS 41. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) Designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;

(c) Amending the description of the hedging instrument; or

(d) Amending the description of how the entity will assess hedge effectiveness.

113Q. An entity also shall apply the requirement in paragraph 113P(c) if these three conditions are met:

(a) The entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 72B of IPSAS 41);

(b) The original hedging instrument is not derecognized; and

(c) The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 72C and 72D of IPSAS 41).

113R. The requirements in paragraphs 113D–113I may cease to apply at different times. Therefore, applying paragraph 113P, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 113V–113ZB as applicable. An entity also shall apply paragraph 99 (for a fair value hedge) or paragraph 107 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

113S. An entity shall amend a hedging relationship as required in paragraph 113P by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

113T. If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 72B–72D of IPSAS 41) or to the designation of the hedging relationship (as required by paragraph 113P), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 113P.

113U. Paragraphs 113V–113ZC provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 98, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for Qualifying Hedging Relationships

Retrospective Effectiveness Assessment

113V. For the purpose of assessing the retrospective effectiveness of a hedging relationship on a cumulative basis applying paragraph 98(e) and only for this purpose, an entity may elect to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply paragraph 113G as required by paragraph 113M. This election is made separately for each hedging relationship (i.e., on an individual hedging relationship basis).

Cash Flow Hedges

113W. For the purpose of applying paragraph 108, at the point when an entity amends the description of a hedged item as required in paragraph 113P(b), the cumulative gain or loss in net assets/equity shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

113X. For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 112(c) in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in net assets/equity for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of Items

113Y. When an entity applies paragraph 113P to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 113P, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

113Z. An entity shall assess separately whether each subgroup meets the requirements in paragraphs 87 and 93 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraphs 87 and 93, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 99 or 107 to account for ineffectiveness related to the hedging relationship in its entirety.

Designating Financial Items as Hedged Items

113ZA. An alternative benchmark rate designated as a non-contractually specified risk portion that is not separately identifiable (see paragraphs 90 and AG139) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk portion for the first time (i.e., the 24-month period applies on a rate-by-rate basis).

113ZB. If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk portion for the first time, the entity shall cease applying the requirement in paragraph 113ZA to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a non-contractually specified risk portion.

113ZC. In addition to those hedging relationships specified in paragraph 113P, an entity shall apply the requirements in paragraphs 113ZA and 113ZB to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk portion (see paragraphs 90 and AG139) when, because of interest rate benchmark reform, that risk portion is not separately identifiable at the date it is designated.

Transition

114. [Deleted]

115. [Deleted]

116. [Deleted]

117. [Deleted]

118. [Deleted]

119. [Deleted]

120. [Deleted]

121. [Deleted]

122. [Deleted]

123. [Deleted]

Effective Date and Transition

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

125. **An entity shall not apply this Standard before January 1, 2013, unless it also applies IPSAS 28 and IPSAS 30.**

125A. **Paragraph 2 was amended by IPSAS 32, *Service Concession Arrangements*: *Grantor* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 6 and 42A of IPSAS 5, the amendments to paragraphs 5, 7 and 107C of IPSAS 17 and the amendments to paragraphs 6 and 132A of IPSAS 31.**

125B. **Paragraphs 114, 115, 116, 117, 118, 119, 120, 121, 122, 124 and 126 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

125C. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 2(a), 17, 89, AG2, AG14, AG51–53 and C2. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

125D. **Paragraph AG8 was amended by *Improvements to IPSAS 2015* issued in April 2016. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2017 it shall disclose that fact.**

125E. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

125F. **Paragraph 2 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

125G. **Paragraphs 2, AG35, AG131 and B4 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

125H. **Paragraphs 2, 9, 10, 80, 98, 99, 101, 102, 107, 108, 109, 111, 112, 113, AG128, AG157 and AG161 were amended, paragraph AG156A was added and paragraphs 1, 3, 4, 5, 6, 11–79, 88, AG1–AG126 and AG129 were deleted by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

125I. **Paragraphs 113A–113N were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognized in net assets/equity that existed at the beginning of the reporting period in which an entity first applies these amendments.**

125J. **Paragraphs 113O–113ZC, 125K–125M were added by *Improvements to IPSAS, 2021,* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, except as specified in paragraphs 125K–125M.**

125K. An entity shall designate a new hedging relationship (for example, as described in paragraph 113ZC) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) The entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) At the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

125L. If, in applying paragraph 125K, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 113ZA and 113ZB to the date the alternative benchmark rate is designated as a non-contractually specified risk portion for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk portion begins from the date of initial application of these amendments).

125M. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these

amendments in the opening net assets/equity (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

126. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 29.

Scope (paragraphs 2–8)

AG1–AG126. [Deleted]

Hedging (paragraphs 80–113)

Hedging Instruments (paragraphs 81–86)

Qualifying Instruments (paragraphs 81 and 82)

AG127. The potential loss on an option that an entity writes could be significantly greater than the potential gain in value of a related hedged item. In other words, a written option is not effective in reducing the surplus or deficit exposure of a hedged item. Therefore, a written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option, including one that is embedded in another financial instrument (e.g., a written call option used to hedge a callable liability). In contrast, a purchased option has potential gains equal to or greater than losses and therefore has the potential to reduce surplus or deficit exposure from changes in fair values or cash flows. Accordingly, it can qualify as a hedging instrument.

AG128. A financial asset measured at amortized cost may be designated as a hedging instrument in a hedge of foreign currency risk.

AG129. [Deleted]

AG130. An entity's own equity instruments are not financial assets or financial liabilities of the entity and therefore cannot be designated as hedging instruments.

Hedged items (paragraphs 87–94)

Qualifying items (paragraphs 87–89)

AG131. A firm commitment to acquire an entity or an integrated set of activities in a public sector combination cannot be a hedged item, except for foreign exchange risk, because the other risks being hedged cannot be specifically identified and measured. These other risks are general operational risks.

AG132. An equity method investment cannot be a hedged item in a fair value hedge because the equity method recognizes in surplus or deficit the investor's share of the associate's surplus or deficit, rather than changes in the investment's fair value. For a similar reason, an investment in a consolidated controlled entity cannot be a hedged item in a fair value hedge because consolidation recognizes in surplus or deficit the controlled entity's surplus or deficit, rather than changes in the investment's fair value. A hedge of a net investment in a foreign operation is different because it is a hedge of the foreign currency exposure, not a fair value hedge of the change in the value of the investment.

AG133. Paragraph 89 states that in consolidated financial statements the foreign currency risk of a highly probable forecast transaction within the economic entity may qualify as a hedged item in a cash flow hedge, provided the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated surplus or deficit. For this purpose an entity can be a controlling entity, controlled entity, associate, joint venture or branch. If the foreign currency risk of a forecast transaction within the economic entity does not affect consolidated surplus or deficit, the transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same economic entity unless there is a related external

transaction. However, when the foreign currency risk of a forecast transaction within the economic entity will affect consolidated surplus or deficit, the transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same economic entity if there is an onward sale of the inventory to a party external to the economic entity. Similarly, a forecast sale of property, plant and equipment within the economic entity from the entity that constructed it to the entity that will use the property, plant and equipment in its operations may affect consolidated surplus or deficit. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognized for the plant and equipment may change if the forecast transaction within the economic entity is denominated in a currency other than the functional currency of the purchasing entity.

AG134. If a hedge of a forecast transaction within the economic entity qualifies for hedge accounting, any gain or loss that is recognized directly in net assets/equity in accordance with paragraph 106(a) shall be reclassified into surplus or deficit as a reclassification adjustment in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated surplus or deficit.

AG135. An entity can designate all changes in the cash flows or fair value of a hedged item in a hedging relationship. An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The intrinsic value of a purchased option hedging instrument (assuming that it has the same principal terms as the designated risk), but not its time value, reflects a one-sided risk in a hedged item. For example, an entity can designate the variability of future cash flow outcomes resulting from a price increase of a forecast commodity purchase. In such a situation, only cash flow losses that result from an increase in the price above the specified level are designated. The hedged risk does not include the time value of a purchased option because the time value is not a component of the forecast transaction that affects surplus or deficit (paragraph 96(b)).

Designation of Financial Items as Hedged Items (paragraphs 90 and 91)

AG136. If a portion of the cash flows of a financial asset or financial liability is designated as the hedged item, that designated portion must be less than the total cash flows of the asset or liability. For example, in the case of a liability whose effective interest rate is below a market related interest rate, an entity cannot designate (a) a portion of the liability equal to the principal amount plus interest at a market related rate and (b) a negative residual portion. However, the entity may designate all of the cash flows of the entire financial asset or financial liability as the hedged item and hedge them for only one particular risk (e.g., only for changes that are attributable to changes in the market rate). For example, in the case of a financial liability whose effective interest rate is 100 basis points below the market rate, an entity can designate as the hedged item the entire liability (i.e., principal plus interest at the market rate minus 100 basis points) and hedge the change in the fair value or cash flows of that entire liability that is attributable to changes in the market rate. The entity may also choose a hedge ratio of other than one to one in order to improve the effectiveness of the hedge as described in paragraph AG140.

AG137. In addition, if a fixed rate financial instrument is hedged some time after its origination and interest rates have changed in the meantime, the entity can designate a portion equal to a benchmark rate that is higher than the contractual rate paid on the item. The entity can do so provided that the benchmark rate is less than the effective interest rate calculated on the assumption that the entity had purchased the instrument on the day it first designates the hedged item. For example, assume an entity originates a fixed rate financial asset of CU100 that has an effective interest rate of 6 percent at a time when the market rate is 4 percent. It begins to hedge that asset some time later when the market rate has increased to 8 percent and the fair value of the asset has decreased to CU90. The entity calculates that if it had purchased the asset on the date it first designates it as the hedged item for its then fair value of CU90, the effective yield would have been 9.5 percent. Because the market rate is less than this effective yield, the entity can designate a portion of the

market rate of 8 percent that consists partly of the contractual interest cash flows and partly of the difference between the current fair value (i.e., CU90) and the amount repayable on maturity (i.e., CU100).

AG138. Paragraph 90 permits an entity to designate something other than the entire fair value change or cash flow variability of a financial instrument. For example:

(a) All of the cash flows of a financial instrument may be designated for cash flow or fair value changes attributable to some (but not all) risks; or

(b) Some (but not all) of the cash flows of a financial instrument may be designated for cash flow or fair value changes attributable to all or only some risks (i.e., a "portion" of the cash flows of the financial instrument may be designated for changes attributable to all or only some risks).

AG139. To be eligible for hedge accounting, the designated risks and portions must be separately identifiable components of the financial instrument, and changes in the cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable. For example:

(a) For a fixed rate financial instrument hedged for changes in fair value attributable to changes in a risk-free or benchmark interest rate, the risk-free or benchmark rate is normally regarded as both a separately identifiable component of the financial instrument and reliably measurable.

(b) Inflation is not separately identifiable and reliably measurable and cannot be designated as a risk or a portion of a financial instrument unless the requirements in (c) are met.

(c) A contractually specified inflation portion of the cash flows of a recognized inflation-linked bond (assuming there is no requirement to account for an embedded derivative separately) is separately identifiable and reliably measurable as long as other cash flows of the instrument are not affected by the inflation portion.

Designation of Non-Financial Items as Hedged Items (paragraph 92)

AG140. Changes in the price of an ingredient or component of a non-financial asset or non-financial liability generally do not have a predictable, separately measurable effect on the price of the item that is comparable to the effect of, say, a change in market interest rates on the price of a bond. Thus, a non-financial asset or non-financial liability is a hedged item only in its entirety or for foreign exchange risk. If there is a difference between the terms of the hedging instrument and the hedged item (such as for a hedge of the forecast purchase of Brent Crude oil using a forward contract to purchase Light Sweet Crude oil on otherwise similar terms), the hedging relationship nonetheless can qualify as a hedge relationship provided all the conditions in paragraph 98 are met, including that the hedge is expected to be highly effective. For this purpose, the amount of the hedging instrument may be greater or less than that of the hedged item if this improves the effectiveness of the hedging relationship. For example, a regression analysis could be performed to establish a statistical relationship between the hedged item (e.g., a transaction in Brent Crude oil) and the hedging instrument (e.g., a transaction in Light Sweet Crude oil). If there is a valid statistical relationship between the two variables (i.e., between the unit prices of Brent Crude oil and Light Sweet Crude oil), the slope of the regression line can be used to establish the hedge ratio that will maximize expected effectiveness. For example, if the slope of the regression line is 1.02, a hedge ratio based on 0.98 quantities of hedged items to 1.00 quantities of the hedging instrument maximizes expected effectiveness. However, the hedging relationship may result in ineffectiveness that is recognized in surplus or deficit during the term of the hedging relationship.

Designation of Groups of Items as Hedged Items (paragraphs 93 and 94)

AG141. A hedge of an overall net position (e.g., the net of all fixed rate assets and fixed rate liabilities with similar maturities), rather than of a specific hedged item, does not qualify for hedge accounting. However, almost

the same effect on surplus or deficit of hedge accounting for this type of hedging relationship can be achieved by designating as the hedged item part of the underlying items. For example, if a bank has CU100 of assets and CU90 of liabilities with risks and terms of a similar nature and hedges the net CU10 exposure, it can designate as the hedged item CU10 of those assets. This designation can be used if such assets and liabilities are fixed rate instruments, in which case it is a fair value hedge, or if they are variable rate instruments, in which case it is a cash flow hedge. Similarly, if an entity has a firm commitment to make a purchase in a foreign currency of CU100 and a firm commitment to make a sale in the foreign currency of CU90, it can hedge the net amount of CU10 by acquiring a derivative and designating it as a hedging instrument associated with CU10 of the firm purchase commitment of CU100.

Hedge Accounting (paragraphs 95–113)

AG142. An example of a fair value hedge is a hedge of exposure to changes in the fair value of a fixed rate debt instrument as a result of changes in interest rates. Such a hedge could be entered into by the issuer or by the holder.

AG143. An example of a cash flow hedge is the use of a swap to change floating rate debt to fixed rate debt (i.e., a hedge of a future transaction where the future cash flows being hedged are the future interest payments).

AG144. A hedge of a firm commitment (e.g., a hedge of the change in fuel price relating to an unrecognized contractual commitment by an electric utility to purchase fuel at a fixed price) is a hedge of an exposure to a change in fair value. Accordingly, such a hedge is a fair value hedge. However, under paragraph 97 a hedge of the foreign currency risk of a firm commitment could alternatively be accounted for as a cash flow hedge.

Assessing Hedge Effectiveness

AG145. A hedge is regarded as highly effective only if both of the following conditions are met:

(a) At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Such an expectation can be demonstrated in various ways, including a comparison of past changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk with past changes in the fair value or cash flows of the hedging instrument, or by demonstrating a high statistical correlation between the fair value or cash flows of the hedged item and those of the hedging instrument. The entity may choose a hedge ratio of other than one to one in order to improve the effectiveness of the hedge as described in paragraph AG140.

(b) The actual results of the hedge are within a range of 80–125 percent. For example, if actual results are such that the loss on the hedging instrument is CU120 and the gain on the cash instrument is CU100, offset can be measured by 120/100, which is 120 percent, or by 100/120, which is 83 percent. In this example, assuming the hedge meets the condition in (a), the entity would conclude that the hedge has been highly effective.

AG146. Effectiveness is assessed, at a minimum, at the time an entity prepares its annual financial statements.

AG147. This Standard does not specify a single method for assessing hedge effectiveness. The method an entity adopts for assessing hedge effectiveness depends on its risk management strategy. For example, if the entity's risk management strategy is to adjust the amount of the hedging instrument periodically to reflect changes in the hedged position, the entity needs to demonstrate that the hedge is expected to be highly effective only for the period until the amount of the hedging instrument is next adjusted. In some cases, an entity adopts different methods for different types of hedges. An entity's documentation of its hedging strategy includes its procedures for assessing effectiveness. Those procedures state whether the assessment includes all of the gain or loss on a hedging instrument or whether the instrument's time value is excluded.

AG148. If an entity hedges less than 100 percent of the exposure on an item, such as 85 percent, it shall designate the hedged item as being 85 percent of the exposure and shall measure ineffectiveness based on the change in that designated 85 percent exposure. However, when hedging the designated 85 percent exposure, the entity may use a hedge ratio of other than one to one if that improves the expected effectiveness of the hedge, as explained in paragraph AG140.

AG149. If the principal terms of the hedging instrument and of the hedged asset, liability, firm commitment or highly probable forecast transaction are the same, the changes in fair value and cash flows attributable to the risk being hedged may be likely to offset each other fully, both when the hedge is entered into and afterwards. For example, an interest rate swap is likely to be an effective hedge if the notional and principal amounts, term, repricing dates, dates of interest and principal receipts and payments, and basis for measuring interest rates are the same for the hedging instrument and the hedged item. In addition, a hedge of a highly probable forecast purchase of a commodity with a forward contract is likely to be highly effective if:

(a) The forward contract is for the purchase of the same quantity of the same commodity at the same time and location as the hedged forecast purchase;

(b) The fair value of the forward contract at inception is zero; and

(c) Either the change in the discount or premium on the forward contract is excluded from the assessment of effectiveness and recognized in surplus or deficit or the change in expected cash flows on the highly probable forecast transaction is based on the forward price for the commodity.

AG150. Sometimes the hedging instrument offsets only part of the hedged risk. For example, a hedge would not be fully effective if the hedging instrument and hedged item are denominated in different currencies that do not move in tandem. Also, a hedge of interest rate risk using a derivative would not be fully effective if part of the change in the fair value of the derivative is attributable to the counterparty's credit risk.

AG151. To qualify for hedge accounting, the hedge must relate to a specific identified and designated risk, and not merely to the entity's general operational risks, and must ultimately affect the entity's surplus or deficit. A hedge of the risk of obsolescence of a physical asset or the risk of legislative changes relating to the rehabilitation of damage to the environment is not eligible for hedge accounting; effectiveness cannot be measured because those risks are not measurable reliably.

AG152. Paragraph 83(a) permits an entity to separate the intrinsic value and time value of an option contract and designate as the hedging instrument only the change in the intrinsic value of the option contract. Such a designation may result in a hedging relationship that is perfectly effective in achieving offsetting changes in cash flows attributable to a hedged one-sided risk of a forecast transaction, if the principal terms of the forecast transaction and hedging instrument are the same.

AG153. If an entity designates a purchased option in its entirety as the hedging instrument of a one-sided risk arising from a forecast transaction, the hedging relationship will not be perfectly effective. This is because the premium paid for the option includes time value and, as stated in paragraph AG135, a designated one-sided risk does not include the time value of an option. Therefore, in this situation, there will be no offset between the cash flows relating to the time value of the option premium paid and the designated hedged risk.

AG154. In the case of interest rate risk, hedge effectiveness may be assessed by preparing a maturity schedule for financial assets and financial liabilities that shows the net interest rate exposure for each time period, provided that the net exposure is associated with a specific asset or liability (or a specific group of assets or liabilities or a specific portion of them) giving rise to the net exposure, and hedge effectiveness is assessed against that asset or liability.

AG155. In assessing the effectiveness of a hedge, an entity generally considers the time value of money. The fixed interest rate on a hedged item need not exactly match the fixed interest rate on a swap designated as a fair

value hedge. Nor does the variable interest rate on an interest-bearing asset or liability need to be the same as the variable interest rate on a swap designated as a cash flow hedge. A swap's fair value derives from its net settlements. The fixed and variable rates on a swap can be changed without affecting the net settlement if both are changed by the same amount.

AG156. If an entity does not meet hedge effectiveness criteria, the entity discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. However, if the entity identifies the event or change in circumstances that caused the hedging relationship to fail the effectiveness criteria, and demonstrates that the hedge was effective before the event or change in circumstances occurred, the entity discontinues hedge accounting from the date of the event or change in circumstances.

AG156A. For the avoidance of doubt, the effects of replacing the original counterparty with a clearing counterparty and making the associated changes as described in paragraphs 102(a)(ii) and 112(a)(ii) shall be reflected in the measurement of the hedging instrument and therefore in the assessment of hedge effectiveness and the measurement of hedge effectiveness.

Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk

AG157. For a fair value hedge of interest rate risk associated with a portfolio of financial assets or financial liabilities, an entity would meet the requirements of this Standard if it complies with the procedures set out in (a)–(i) and paragraphs AG158–AG175 below.

(a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios, in which case it applies the guidance below to each portfolio separately.

(b) The entity analyses the portfolio into repricing time periods based on expected, rather than contractual, repricing dates. The analysis into repricing time periods may be performed in various ways including scheduling cash flows into the periods in which they are expected to occur, or scheduling notional principal amounts into all periods until repricing is expected to occur.

(c) On the basis of this analysis, the entity decides the amount it wishes to hedge. The entity designates as the hedged item an amount of assets or liabilities (but not a net amount) from the identified portfolio equal to the amount it wishes to designate as being hedged. This amount also determines the percentage measure that is used for testing effectiveness in accordance with paragraph AG169(b).

(d) The entity designates the interest rate risk it is hedging. This risk could be a portion of the interest rate risk in each of the items in the hedged position, such as a benchmark interest rate (e.g., a swap rate).

(e) The entity designates one or more hedging instruments for each repricing time period.

(f) Using the designations made in (c)–(e) above, the entity assesses at inception and in subsequent periods, whether the hedge is expected to be highly effective during the period for which the hedge is designated.

(g) Periodically, the entity measures the change in the fair value of the hedged item (as designated in (c)) that is attributable to the hedged risk (as designated in (d)), on the basis of the expected repricing dates determined in (b). Provided that the hedge is determined actually to have been highly effective when assessed using the entity's documented method of assessing effectiveness, the entity recognizes the change in fair value of the hedged item as a gain or loss in surplus or deficit and in one of two line items in the statement of financial position as described in paragraph 100. The change in fair value need not be allocated to individual assets or liabilities.

(h) The entity measures the change in fair value of the hedging instrument(s) (as designated in (e)) and recognizes it as a gain or loss in surplus or deficit. The fair value of the hedging instrument(s) is recognized as an asset or liability in the statement of financial position.

(i) Any ineffectiveness will be recognized in surplus or deficit as the difference between the change in fair value referred to in (g) and that referred to in (h) (effectiveness is measured using the same materiality considerations as in other IPSAS).

AG158. This approach is described in more detail below. The approach shall be applied only to a fair value hedge of the interest rate risk associated with a portfolio of financial assets or financial liabilities.

AG159. The portfolio identified in paragraph AG157(a) could contain assets and liabilities. Alternatively, it could be a portfolio containing only assets, or only liabilities. The portfolio is used to determine the amount of the assets or liabilities the entity wishes to hedge. However, the portfolio is not itself designated as the hedged item.

AG160. In applying paragraph AG157(b), the entity determines the expected repricing date of an item as the earlier of the dates when that item is expected to mature or to reprice to market rates. The expected repricing dates are estimated at the inception of the hedge and throughout the term of the hedge, based on historical experience and other available information, including information and expectations regarding prepayment rates, interest rates and the interaction between them. Entities that have no entity-specific experience or insufficient experience use peer group experience for comparable financial instruments. These estimates are reviewed periodically and updated in the light of experience. In the case of a fixed rate item that is prepayable, the expected repricing date is the date on which the item is expected to prepay unless it reprices to market rates on an earlier date. For a group of similar items, the analysis into time periods based on expected repricing dates may take the form of allocating a percentage of the group, rather than individual items, to each time period. An entity may apply other methodologies for such allocation purposes. For example, it may use a prepayment rate multiplier for allocating amortizing loans to time periods based on expected repricing dates. However, the methodology for such an allocation shall be in accordance with the entity's risk management procedures and objectives.

AG161. As an example of the designation set out in paragraph AG157(c), if in a particular repricing time period an entity estimates that it has fixed rate assets of CU100 and fixed rate liabilities of CU80 and decides to hedge all of the net position of CU20, it designates as the hedged item assets in the amount of CU20 (a portion of the assets is designated as the Standard permits an entity to designate any amount of the available qualifying assets or liabilities, i.e., in this example any amount of the assets between CU0 and CU100). The designation is expressed as an "amount of a currency" (e.g., an amount of dollars, euro, pounds or rand) rather than as individual assets. It follows that all of the assets (or liabilities) from which the hedged amount is drawn – i.e., all of the CU100 of assets in the above example – must be:

(a) Items whose fair value changes in response to changes in the interest rate being hedged; and

(b) Items that could have qualified for fair value hedge accounting if they had been designated as hedged individually. In particular, because IPSAS 41 specifies that the fair value of a financial liability with a demand feature (such as demand deposits and some types of time deposits) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid, such an item cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the holder can demand payment. In the above example, the hedged position is an amount of assets. Hence, such liabilities are not a part of the designated hedged item, but are used by the entity to determine the amount of the asset that is designated as being hedged. If the position the entity wished to hedge was an amount of liabilities, the amount representing the designated hedged item must be drawn from fixed rate liabilities other than liabilities that the entity can be required to repay in an earlier time period, and the percentage measure used for assessing hedge effectiveness

in accordance with paragraph AG169(b) would be calculated as a percentage of these other liabilities. For example, assume that an entity estimates that in a particular repricing time period it has fixed rate liabilities of CU100, comprising CU40 of demand deposits and CU60 of liabilities with no demand feature, and CU70 of fixed rate assets. If the entity decides to hedge all of the net position of CU30, it designates as the hedged item liabilities of CU30 or 50 percent (CU30 / (CU100 - CU40) = 50 percent) of the liabilities with no demand feature.

AG162. The entity also complies with the other designation and documentation requirements set out in paragraph 98(a). For a portfolio hedge of interest rate risk, this designation and documentation specifies the entity's policy for all of the variables that are used to identify the amount that is hedged and how effectiveness is measured, including the following:

(a) Which assets and liabilities are to be included in the portfolio hedge and the basis to be used for removing them from the portfolio.

(b) How the entity estimates repricing dates, including what interest rate assumptions underlie estimates of prepayment rates and the basis for changing those estimates. The same method is used for both the initial estimates made at the time an asset or liability is included in the hedged portfolio and for any later revisions to those estimates.

(c) The number and duration of repricing time periods.

(d) How often the entity will test effectiveness and which of the two methods in paragraph AG169 it will use.

(e) The methodology used by the entity to determine the amount of assets or liabilities that are designated as the hedged item and, accordingly, the percentage measure used when the entity tests effectiveness using the method described in paragraph AG169(b).

(f) When the entity tests effectiveness using the method described in paragraph AG169(b), whether the entity will test effectiveness for each repricing time period individually, for all time periods in aggregate, or by using some combination of the two.

The policies specified in designating and documenting the hedging relationship shall be in accordance with the entity's risk management procedures and objectives. Changes in policies shall not be made arbitrarily. They shall be justified on the basis of changes in market conditions and other factors and be founded on and consistent with the entity's risk management procedures and objectives.

AG163. The hedging instrument referred to in paragraph AG157(e) may be a single derivative or a portfolio of derivatives all of which contain exposure to the hedged interest rate risk designated in paragraph AG157(d). Such a portfolio of derivatives may contain offsetting risk positions. However, it may not include written options or net written options, because paragraph 86 of the Standard and paragraph AG127 do not permit such options to be designated as hedging instruments (except when a written option is designated as an offset to a purchased option). If the hedging instrument hedges the amount designated in paragraph AG157(c) for more than one repricing time period, it is allocated to all of the time periods that it hedges. However, the whole of the hedging instrument must be allocated to those repricing time periods because paragraph 84 of the Standard does not permit a hedging relationship to be designated for only a portion of the time period during which a hedging instrument remains outstanding.

AG164. When the entity measures the change in the fair value of a prepayable item in accordance with paragraph AG157(g), a change in interest rates affects the fair value of the prepayable item in two ways: it affects the fair value of the contractual cash flows and the fair value of the prepayment option that is contained in a prepayable item. Paragraph 90 of the Standard permits an entity to designate a portion of a financial asset or financial liability, sharing a common risk exposure, as the hedged item, provided effectiveness can be

measured. For prepayable items, paragraph 91 permits this to be achieved by designating the hedged item in terms of the change in the fair value that is attributable to changes in the designated interest rate on the basis of expected, rather than contractual, repricing dates. However, the effect that changes in the hedged interest rate have on those expected repricing dates shall be included when determining the change in the fair value of the hedged item. Consequently, if the expected repricing dates are revised (e.g., to reflect a change in expected prepayments), or if actual repricing dates differ from those expected, ineffectiveness will arise as described in paragraph AG169. Conversely, changes in expected repricing dates that (a) clearly arise from factors other than changes in the hedged interest rate, (b) are uncorrelated with changes in the hedged interest rate, and (c) can be reliably separated from changes that are attributable to the hedged interest rate (e.g., changes in prepayment rates clearly arising from a change in demographic factors or tax regulations rather than changes in interest rate) are excluded when determining the change in the fair value of the hedged item, because they are not attributable to the hedged risk. If there is uncertainty about the factor that gave rise to the change in expected repricing dates or the entity is not able to separate reliably the changes that arise from the hedged interest rate from those that arise from other factors, the change is assumed to arise from changes in the hedged interest rate.

AG165. The Standard does not specify the techniques used to determine the amount referred to in paragraph AG157(g), namely the change in the fair value of the hedged item that is attributable to the hedged risk. If statistical or other estimation techniques are used for such measurement, management must expect the result to approximate closely that which would have been obtained from measurement of all the individual assets or liabilities that constitute the hedged item. It is not appropriate to assume that changes in the fair value of the hedged item equal changes in the value of the hedging instrument.

AG166. Paragraph 100 requires that if the hedged item for a particular repricing time period is an asset, the change in its value is presented in a separate line item within assets. Conversely, if the hedged item for a particular repricing time period is a liability, the change in its value is presented in a separate line item within liabilities. These are the separate line items referred to in paragraph AG157(g). Specific allocation to individual assets (or liabilities) is not required.

AG167. Paragraph AG157(i) notes that ineffectiveness arises to the extent that the change in the fair value of the hedged item that is attributable to the hedged risk differs from the change in the fair value of the hedging derivative. Such a difference may arise for a number of reasons, including:

(a) Actual repricing dates being different from those expected, or expected repricing dates being revised;

(b) Items in the hedged portfolio becoming impaired or being derecognized;

(c) The payment dates of the hedging instrument and the hedged item being different; and

(d) Other causes (e.g., when a few of the hedged items bear interest at a rate below the benchmark rate for which they are designated as being hedged, and the resulting ineffectiveness is not so great that the portfolio as a whole fails to qualify for hedge accounting).

Such ineffectiveness (applying the same materiality considerations in other IPSAS) shall be identified and recognized in surplus or deficit.

AG168. Generally, the effectiveness of the hedge will be improved:

(a) If the entity schedules items with different prepayment characteristics in a way that takes account of the differences in prepayment behavior.

(b) When the number of items in the portfolio is larger. When only a few items are contained in the portfolio, relatively high ineffectiveness is likely if one of the items prepays earlier or later than expected. Conversely, when the portfolio contains many items, the prepayment behavior can be predicted more accurately.

(c) When the repricing time periods used are narrower (e.g., 1-month as opposed to 3-month repricing time periods). Narrower repricing time periods reduce the effect of any mismatch between the repricing and payment dates (within the repricing time period) of the hedged item and those of the hedging instrument.

(d) The greater the frequency with which the amount of the hedging instrument is adjusted to reflect changes in the hedged item (e.g., because of changes in prepayment expectations).

AG169. An entity tests effectiveness periodically. If estimates of repricing dates change between one date on which an entity assesses effectiveness and the next, it shall calculate the amount of effectiveness either:

(a) As the difference between the change in the fair value of the hedging instrument (see paragraph AG157(h)) and the change in the value of the entire hedged item that is attributable to changes in the hedged interest rate (including the effect that changes in the hedged interest rate have on the fair value of any embedded prepayment option); or

(b) Using the following approximation. The entity:

(i) Calculates the percentage of the assets (or liabilities) in each repricing time period that was hedged, on the basis of the estimated repricing dates at the last date it tested effectiveness.

(ii) Applies this percentage to its revised estimate of the amount in that repricing time period to calculate the amount of the hedged item based on its revised estimate.

(iii) Calculates the change in the fair value of its revised estimate of the hedged item that is attributable to the hedged risk and presents it as set out in paragraph AG157(g).

(iv) Recognizes ineffectiveness equal to the difference between the amount determined in (iii) and the change in the fair value of the hedging instrument (see paragraph AG157(h)).

AG170. When measuring effectiveness, the entity distinguishes revisions to the estimated repricing dates of existing assets (or liabilities) from the origination of new assets (or liabilities), with only the former giving rise to ineffectiveness. All revisions to estimated repricing dates (other than those excluded in accordance with paragraph AG164), including any reallocation of existing items between time periods, are included when revising the estimated amount in a time period in accordance with paragraph AG169(b)(ii) and hence when measuring effectiveness. Once ineffectiveness has been recognized as set out above, the entity establishes a new estimate of the total assets (or liabilities) in each repricing time period, including new assets (or liabilities) that have been originated since it last tested effectiveness, and designates a new amount as the hedged item and a new percentage as the hedged percentage. The procedures set out in paragraph AG169(b) are then repeated at the next date it tests effectiveness.

AG171. Items that were originally scheduled into a repricing time period may be derecognized because of earlier than expected prepayment or write-offs caused by impairment or sale. When this occurs, the amount of change in fair value included in the separate line item referred to in paragraph AG157(g) that relates to the derecognized item shall be removed from the statement of financial position, and included in the gain or loss that arises on derecognition of the item. For this purpose, it is necessary to know the repricing time period(s) into which the derecognized item was scheduled, because this determines the repricing time period(s) from which to remove it and hence the amount to remove from the separate line item referred to in paragraph AG157(g). When an item is derecognized, if it can be determined in which time period it was included, it is removed from that time period. If not, it is removed from the earliest time period if the derecognition resulted from higher than expected prepayments, or allocated to all time periods containing the derecognized item on a systematic and rational basis if the item was sold or became impaired.

AG172. In addition, any amount relating to a particular time period that has not been derecognized when the time period expires is recognized in surplus or deficit at that time (see paragraph 100). For example, assume an

entity schedules items into three repricing time periods. At the previous redesignation, the change in fair value reported in the single line item in the statement of financial position was an asset of CU25. That amount represents amounts attributable to periods 1, 2 and 3 of CU7, CU8 and CU10, respectively. At the next redesignation, the assets attributable to period 1 have been either realized or rescheduled into other periods. Therefore, CU7 is derecognized from the statement of financial position and recognized in surplus or deficit. CU8 and CU10 are now attributable to periods 1 and 2, respectively. These remaining periods are then adjusted, as necessary, for changes in fair value as described in paragraph AG157(g).

AG173. As an illustration of the requirements of the previous two paragraphs, assume that an entity scheduled assets by allocating a percentage of the portfolio into each repricing time period. Assume also that it scheduled CU100 into each of the first two time periods. When the first repricing time period expires, CU110 of assets are derecognized because of expected and unexpected repayments. In this case, all of the amount contained in the separate line item referred to in paragraph AG157(g) that relates to the first time period is removed from the statement of financial position, plus 10 percent of the amount that relates to the second time period.

AG174. If the hedged amount for a repricing time period is reduced without the related assets (or liabilities) being derecognized, the amount included in the separate line item referred to in paragraph AG157(g) that relates to the reduction shall be amortized in accordance with paragraph 104.

AG175. An entity may wish to apply the approach set out in paragraphs AG157–AG174 to a portfolio hedge that had previously been accounted for as a cash flow hedge in accordance with IPSAS 29. Such an entity would revoke the previous designation of a cash flow hedge in accordance with paragraph 112(d), and apply the requirements set out in that paragraph. It would also redesignate the hedge as a fair value hedge and apply the approach set out in paragraphs AG157–AG174 prospectively to subsequent accounting periods.

Appendix B

Reassessment of Embedded Derivatives

B1–B7. [Deleted]

Appendix C

Hedges of a Net Investment in a Foreign Operation

This Appendix is an integral part of IPSAS 29.

Introduction

C1. Many reporting entities have investments in foreign operations (as defined in IPSAS 4, paragraph 10). Such foreign operations may be controlled entities, associates, joint ventures or branches. IPSAS 4 requires an entity to determine the functional currency of each of its foreign operations as the currency of the primary economic environment of that operation. When translating the results and financial position of a foreign operation into a presentation currency, the entity is required to recognize foreign exchange differences directly in net assets/equity until it disposes of the foreign operation.

C2. Hedge accounting of the foreign currency risk arising from a net investment in a foreign operation will apply only when the net assets of that foreign operation are included in the financial statements. This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint venters are accounted for using the equity method and financial statements that include a branch or joint operations as defined in IPSAS 37. The item being hedged with respect to the foreign currency risk arising from the net investment in a foreign operation may be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation.

C3. IPSAS 29 requires the designation of an eligible hedged item and eligible hedging instruments in a hedge accounting relationship. If there is a designated hedging relationship, in the case of a net investment hedge, the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment is recognized directly in net assets/equity and is included with the foreign exchange differences arising on translation of the results and financial position of the foreign operation.

C4. This appendix applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IPSAS 29. It should not be applied by analogy to other types of hedge accounting. This appendix refers to such an entity as a controlling entity and to the financial statements in which the net assets of foreign operations are included as consolidated financial statements. All references to a controlling entity apply equally to an entity that has a net investment in a foreign operation that is a joint venture, an associate or a branch.

C5. This appendix provides guidance on:

(a) Identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation, given that an entity with many foreign operations may be exposed to a number of foreign currency risks. It specifically addresses:

(i) Whether the controlling entity may designate as a hedged risk only the foreign exchange differences arising from a difference between the functional currencies of the controlling entity and its foreign operation, or whether it may also designate as the hedged risk the foreign exchange differences arising from the difference between the presentation currency of the controlling entity's consolidated financial statements and the functional currency of the foreign operation; and

(ii) If the controlling entity holds the foreign operation indirectly, whether the hedged risk may include only the foreign exchange differences arising from differences in functional currencies between the foreign operation and its immediate controlling entity, or whether the hedged risk may also include any foreign exchange differences between the functional currency of the foreign operation and any intermediate or ultimate controlling entity (i.e., whether the fact that the net

investment in the foreign operation is held through an intermediate controlling entity affects the economic risk to the ultimate controlling entity).

(b) Where in an economic entity the hedging instrument can be held. It specifically addresses:

(i) IPSAS 29 allows an entity to designate either a derivative or a non-derivative financial instrument (or a combination of derivative and non-derivative financial instruments) as hedging instruments for foreign currency risk. This appendix addresses whether the nature of the hedging instrument (derivative or non-derivative) or the method of consolidation affects the assessment of hedge effectiveness.

(ii) This appendix also addresses where, within an economic entity, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting i.e., whether a qualifying hedge accounting relationship can be established only if the entity hedging its net investment is a party to the hedging instrument or whether any entity within the economic entity, regardless of its functional currency, can hold the hedging instrument.

(c) How an entity should determine what amount of the gain or loss recognized in net assets/equity should be recognized directly in surplus or deficit for both the hedging instrument and the hedged item as IPSAS 4 and IPSAS 29 require cumulative amounts recognized directly in net assets/equity relating to both the foreign exchange differences arising on translation of the results and financial position of the foreign operation and the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment to be recognized directly when the controlling entity disposes of the foreign operation. It specifically addresses:

(i) When a foreign operation that was hedged is disposed of, what amounts from the controlling entity's foreign currency translation reserve in respect of the hedging instrument and of that foreign operation should be recognized in surplus or deficit in the controlling entity's consolidated financial statements; and

(ii) Whether the method of consolidation affects the determination of the amounts to be recognized in surplus or deficit.

Application of IPSAS 29 to Hedges of a Net Investment in a Foreign Operation

Nature of the Hedged Risk and Amount of the Hedged Item for which a Hedging Relationship may be Designated

C6. Hedge accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the controlling entity's functional currency.

C7. In a hedge of the foreign currency risks arising from a net investment in a foreign operation, the hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation in the consolidated financial statements of the controlling entity. The carrying amount of the net assets of a foreign operation that may be designated as the hedged item in the consolidated financial statements of a controlling entity depends on whether any lower level controlling entity of the foreign operation has applied hedge accounting for all or part of the net assets of that foreign operation and that accounting has been maintained in the controlling entity's consolidated financial statements.

C8. The hedged risk may be designated as the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of any controlling entity (the immediate, intermediate or ultimate controlling entity) of that foreign operation. The fact that the net investment is held through an intermediate controlling entity does not affect the nature of the economic risk arising from the foreign currency exposure to the ultimate controlling entity.

C9. An exposure to foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once in the consolidated financial statements. Therefore, if the same net assets of a foreign operation are hedged by more than one controlling entity within the economic entity (e.g., both a direct and an indirect controlling entity) for the same risk, only one hedging relationship will qualify for hedge accounting in the consolidated financial statements of the ultimate controlling entity. A hedging relationship designated by one controlling entity in its consolidated financial statements need not be maintained by another higher level controlling entity. However, if it is not maintained by the higher level controlling entity, the hedge accounting applied by the lower level controlling entity must be reversed before the higher level controlling entity's hedge accounting is recognized.

Where the Hedging Instrument can be Held

C10. A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the economic entity (except the foreign operation that itself is being hedged), as long as the designation, documentation and effectiveness requirements of IPSAS 29 paragraph 98 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the economic entity should be clearly documented because of the possibility of different designations at different levels of the economic entity.

C11. For the purpose of assessing effectiveness, the change in value of the hedging instrument in respect of foreign exchange risk is computed by reference to the functional currency of the controlling entity against whose functional currency the hedged risk is measured, in accordance with the hedge accounting documentation. Depending on where the hedging instrument is held, in the absence of hedge accounting the total change in value might be recognized in surplus or deficit, directly in net assets/equity, or both. However, the assessment of effectiveness is not affected by whether the change in value of the hedging instrument is recognized in surplus or deficit or directly in net assets/equity. As part of the application of hedge accounting, the total effective portion of the change is included directly in net assets/equity. The assessment of effectiveness is not affected by whether the hedging instrument is a derivative or a non-derivative instrument or by the method of consolidation.

Disposal of a Hedged Foreign Operation

C12. When a foreign operation that was hedged is disposed of, the amount reclassified to surplus or deficit from the foreign currency translation reserve in the consolidated financial statements of the controlling entity in respect of the hedging instrument is the amount that IPSAS 29 paragraph 113 requires to be identified. That amount is the cumulative gain or loss on the hedging instrument that was determined to be an effective hedge.

C13. The amount recognized in surplus or deficit upon transfer from the foreign currency translation reserve in the consolidated financial statements of a controlling entity in respect of the net investment in that foreign operation in accordance with IPSAS 4 paragraph 57 is the amount included in that controlling entity's foreign currency translation reserve in respect of that foreign operation. In the ultimate controlling entity's consolidated financial statements, the aggregate net amount recognized in the foreign currency translation reserve in respect of all foreign operations is not affected by the consolidation method. However, whether the ultimate controlling entity uses the direct or the step-by-step method of consolidation, this may affect the amount included in its foreign currency translation reserve in respect of an individual foreign operation.

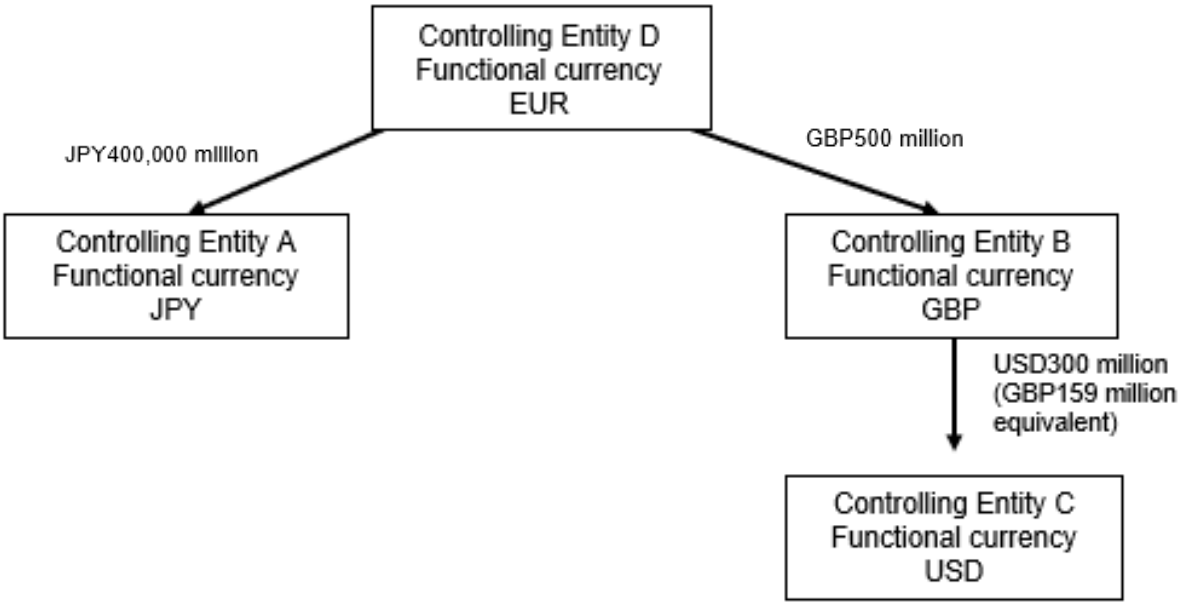
C14. The direct method is the method of consolidation in which the financial statements of the foreign operation are translated directly into the functional currency of the ultimate controlling entity. The step-by-step method is the method of consolidation in which the financial statements of the foreign operation are first translated

into the functional currency of any intermediate controlling entity(ies) and then translated into the functional currency of the ultimate controlling entity (or the presentation currency if different).

C15. The use of the step-by-step method of consolidation may result in a different amount being recognized in surplus or deficit from that used to determine hedge effectiveness. This difference may be eliminated by determining the amount relating to that foreign operation that would have arisen if the direct method of consolidation had been used. Making this adjustment is not required by IPSAS 4. However, it is an accounting policy choice that should be followed consistently for all net investments.

Example

C16. The following example illustrates the application of the preceding paragraphs using the entity structure illustrated below. In all cases the hedging relationships described would be tested for effectiveness in accordance with IPSAS 29, although this testing is not discussed. Controlling Entity D, being the ultimate controlling entity, presents its consolidated financial statements in its functional currency of euro (EUR). Each of the controlled entities i.e., Controlled Entity A, Controlled Entity B and Controlled Entity C, is wholly owned. Controlling Entity D £500 million net investment in Controlled Entity B (functional currency pounds sterling (GBP)) includes the £159 million equivalent of Controlled Entity B's US$300 million net investment in Controlled Entity C (functional currency US dollars (USD)). In other words, Controlled Entity B's net assets other than its investment in Controlled Entity C are £341 million.



Nature of Hedged Risk for which a Hedging Relationship may be Designated (paragraphs C6–C9)

C17. Controlling Entity D can hedge its net investment in each of Controlled Entities A, B and C for the foreign exchange risk between their respective functional currencies (Japanese yen (JPY), pounds sterling and US dollars) and euro. In addition, Controlled Entity D can hedge the USD/GBP foreign exchange risk between the functional currencies of Controlled Entity B and Controlled Entity C. In its consolidated financial statements, Controlled Entity B can hedge its net investment in Controlled Entity C for the foreign exchange risk between their functional currencies of US dollars and pounds sterling. In the following examples the designated risk is the spot foreign exchange risk because the hedging instruments are not derivatives. If the

hedging instruments were forward contracts, Controlling Entity D could designate the forward foreign exchange risk.

Amount of Hedged item for which a Hedging Relationship may be Designated (paragraphs C6–C9)

C18. Controlling Entity D wishes to hedge the foreign exchange risk from its net investment in Controlled Entity C. Assume that Controlled Entity A has an external borrowing of US$300 million. The net assets of Controlled Entity A at the start of the reporting period are ¥400,000 million including the proceeds of the external borrowing of US$300 million.

C19. The hedged item can be an amount of net assets equal to or less than the carrying amount of Controlling Entity D's net investment in Controlled Entity C (US$300 million) in its consolidated financial statements. In its consolidated financial statements Controlling Entity D can designate the US$300 million external borrowing in Controlled Entity A as a hedge of the EUR/USD spot foreign exchange risk associated with its net investment in the US$300 million net assets of Controlled Entity C. In this case, both the EUR/USD foreign exchange difference on the US$300 million external borrowing in Controlled Entity A and the EUR/USD foreign exchange difference on the US$300 million net investment in Controlled Entity C are included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements after the application of hedge accounting.

C20. In the absence of hedge accounting, the total USD/EUR foreign exchange difference on the US$300 million external borrowing in Controlled Entity A would be recognized in Controlling Entity D's consolidated financial statements as follows:

- USD/JPY spot foreign exchange rate change, translated to euro, in surplus or deficit; and
- JPY/EUR spot foreign exchange rate change directly in net assets/equity.

Instead of the designation in paragraph C19, in its consolidated financial statements Controlling Entity D can designate the US$300 million external borrowing in Controlled Entity A as a hedge of the GBP/USD spot foreign exchange risk between Controlled Entity C and Controlled Entity B. In this case, the total USD/EUR foreign exchange difference on the US$300 million external borrowing in Entity A would instead be recognized in Controlled Entity D's consolidated financial statements as follows:

- The GBP/USD spot foreign exchange rate change in the foreign currency translation reserve relating to Controlled Entity C;
- GBP/JPY spot foreign exchange rate change, translated to euro, in surplus or deficit; and
- JPY/EUR spot foreign exchange rate change directly in net assets/equity.

C21. Controlling Entity D cannot designate the US$300 million external borrowing in Controlled Entity A as a hedge of both the EUR/USD spot foreign exchange risk and the GBP/USD spot foreign exchange risk in its consolidated financial statements. A single hedging instrument can hedge the same designated risk only once. Controlled Entity B cannot apply hedge accounting in its consolidated financial statements because the hedging instrument is held outside the economic entity comprising Controlled Entity B and Controlled Entity C.

Where in an Economic Entity can the Hedging Instrument be Held (paragraphs C10 and C11)?

C22. As noted in paragraph C20, the total change in value in respect of foreign exchange risk of the US$300 million external borrowing in Controlled Entity A would be recorded in both surplus or deficit (USD/JPY spot risk) and directly in net assets/equity (EUR/JPY spot risk) in Controlling Entity D's consolidated financial statements in the absence of hedge accounting. Both amounts are included for the purpose of assessing the effectiveness of the hedge designated in paragraph C19 because the change in value of both the hedging

instrument and the hedged item are computed by reference to the euro functional currency of Controlling Entity D against the US dollar functional currency of Controlled Entity C, in accordance with the hedge documentation. The method of consolidation (i.e., direct method or step-by-step method) does not affect the assessment of the effectiveness of the hedge.

Amounts Recognized in Surplus or Deficit on Disposal of a Foreign Operation (paragraphs C12 and C13)

C23. When Controlled Entity C is disposed of, the amounts are recognized in surplus or deficit in Controlling Entity D's consolidated financial statements upon transfer from its foreign currency translation reserve (FCTR) are:

(a) In respect of the US$300 million external borrowing of Controlled Entity A, the amount that IPSAS 29 requires to be identified, i.e., the total change in value in respect of foreign exchange risk that was recognized directly in net assets/equity as the effective portion of the hedge; and

(b) In respect of the US$300 million net investment in Controlled Entity C, the amount determined by the entity's consolidation method. If Controlling Entity D uses the direct method, its FCTR in respect of Controlled Entity C will be determined directly by the EUR/USD foreign exchange rate. If Controlling Entity D uses the step-by-step method, its FCTR in respect of Controlled Entity C will be determined by the FCTR recognized by Controlled Entity B reflecting the GBP/USD foreign exchange rate, translated to Controlling Entity D's functional currency using the EUR/GBP foreign exchange rate. Controlling Entity D's use of the step-by-step method of consolidation in prior periods does not require it to or preclude it from determining the amount of FCTR to be recognized in surplus or deficit when it disposes of Controlled Entity C to be the amount that it would have recognized if it had always used the direct method, depending on its accounting policy.

Hedging More Than One Foreign Operation (paragraphs C7, C9, and C11)

C24. The following examples illustrate that in the consolidated financial statements of Controlling Entity D, the risk that can be hedged is always the risk between its functional currency (euro) and the functional currencies of Controlled Entities B and C. No matter how the hedges are designated, the maximum amounts that can be effective hedges to be included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements when both foreign operations are hedged are US$300 million for EUR/USD risk and £341 million for EUR/GBP risk. Other changes in value due to changes in foreign exchange rates are included in Controlling Entity D's consolidated surplus or deficit. Of course, it would be possible for Controlling Entity D to designate US$300 million only for changes in the USD/GBP spot foreign exchange rate or £500 million only for changes in the GBP/EUR spot foreign exchange rate.

Entity D Holds Both USD and GBP Hedging Instruments

C25. Controlling Entity D may wish to hedge the foreign exchange risk in relation to its net investment in Controlled Entity B as well as that in relation to Controlled Entity C. Assume that Controlling Entity D holds suitable hedging instruments denominated in US dollars and pounds sterling that it could designate as hedges of its net investments in Controlled Entity B and Controlled Entity C. The designations Controlling Entity D can make in its consolidated financial statements include, but are not limited to, the following:

(a) US$300 million hedging instrument designated as a hedge of the US$300 million of net investment in Controlled Entity C with the risk being the spot foreign exchange exposure (EUR/USD) between Controlling Entity D and Controlled Entity C and up to £341 million hedging instrument designated as a hedge of £341 million of the net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (EUR/GBP) between Controlling Entity D and Controlled Entity B.

(b) US$300 million hedging instrument designated as a hedge of the US$300 million of net investment in Controlled Entity C with the risk being the spot foreign exchange exposure (GBP/USD) between Controlled Entity B and Controlled Entity C and up to £500 million hedging instrument designated as a

hedge of £500 million of the net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (EUR/GBP) between Controlling Entity D and Controlled Entity B.

C26. The EUR/USD risk from Controlling Entity D's net investment in Controlled Entity C is a different risk from the EUR/GBP risk from Controlling Entity D's net investment in Controlled Entity B. However, in the case described in paragraph C25(a), by its designation of the USD hedging instrument it holds, Controlling Entity D has already fully hedged the EUR/USD risk from its net investment in Controlled Entity C. If Controlling Entity D also designated a GBP instrument it holds as a hedge of its £500 million net investment in Controlled Entity B, £159 million of that net investment, representing the GBP equivalent of its USD net investment in Controlled Entity C, would be hedged twice for GBP/EUR risk in Controlling Entity D's consolidated financial statements.

C27. In the case described in paragraph C25(b), if Controlling Entity D designates the hedged risk as the spot foreign exchange exposure (GBP/USD) between Controlled Entity B and Controlled Entity C, only the GBP/USD part of the change in the value of its US$300 million hedging instrument is included in Controlling Entity D's foreign currency translation reserve relating to Controlled Entity C. The remainder of the change (equivalent to the GBP/EUR change on £159 million) is included in Controlling Entity D's consolidated surplus or deficit, as in paragraph C20. Because the designation of the USD/GBP risk between Controlled entities B and C does not include the GBP/EUR risk, Controlled Entity D is also able to designate up to £500 million of its net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (GBP/EUR) between Controlling Entity D and Controlled Entity B.

Entity B Holds the USD Hedging Instrument

C28. Assume that Controlled Entity B holds US$300 million of external debt, the proceeds of which were transferred to Controlling Entity D by an inter-entity loan denominated in pounds sterling. Because both its assets and liabilities increased by £159 million, Controlled Entity B's net assets are unchanged. Controlled Entity B could designate the external debt as a hedge of the GBP/USD risk of its net investment in Controlled Entity C in its consolidated financial statements. Controlling Entity D could maintain Controlled Entity B's designation of that hedging instrument as a hedge of its US$300 million net investment in Controlled Entity C for the GBP/USD risk (see paragraph C9) and Controlling Entity D could designate the GBP hedging instrument it holds as a hedge of its entire £500 million net investment in Controlled Entity B. The first hedge, designated by Controlled Entity B, would be assessed by reference to Controlled Entity B's functional currency (pounds sterling) and the second hedge, designated by Controlling Entity D, would be assessed by reference to Controlling Entity D's functional currency (euro). In this case, only the GBP/USD risk from Controlling Entity D's net investment in Controlled Entity C has been hedged in Controlling Entity D's consolidated financial statements by the USD hedging instrument, not the entire EUR/USD risk. Therefore, the entire EUR/GBP risk from Controlling Entity D's £500 million net investment in Controlled Entity B may be hedged in the consolidated financial statements of Controlling Entity D.

C29. However, the accounting for Controlled Entity D's £159 million loan payable to Controlled Entity B must also be considered. If Controlling Entity D's loan payable is not considered part of its net investment in Controlled Entity B because it does not satisfy the conditions in IPSAS 4 paragraph 18, the GBP/EUR foreign exchange difference arising on translating it would be included in Controlling Entity D's consolidated surplus or deficit. If the £159 million loan payable to Controlled Entity B is considered part of Controlling Entity D's net investment, that net investment would be only £341 million and the amount Controlling Entity D could designate as the hedged item for GBP/EUR risk would be reduced from £500 million to £341 million accordingly.

C30. If Controlling Entity D reversed the hedging relationship designated by Controlled Entity B, Controlling Entity D could designate the US$300 million external borrowing held by Controlled Entity B as a hedge of its US$300 million net investment in Controlled Entity C for the EUR/USD risk and designate the GBP hedging instrument

it holds itself as a hedge of only up to £341 million of the net investment in Controlled Entity B. In this case the effectiveness of both hedges would be computed by reference to Controlling Entity D's functional currency (euro). Consequently, both the USD/GBP change in value of the external borrowing held by Controlled Entity B and the GBP/EUR change in value of Controlling Entity D's loan payable to Controlled Entity B (equivalent to USD/EUR in total) would be included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements. Because Controlling Entity D has already fully hedged the EUR/USD risk from its net investment in Controlled Entity C, it can hedge only up to £341 million for the EUR/GBP risk of its net investment in Controlled Entity B.

Appendix D

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 29.

Introduction

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 29, *Financial Instruments: Recognition and Measurement*. As this Standard is based on IAS 39, *Financial Instruments: Recognition and Measurement* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 29 departs from the main requirements of IAS 39.

BC2. This project on financial instruments forms part of the IPSASB's convergence program which aims to converge IPSAS with IFRS. The IPSASB acknowledges that there are other aspects of financial instruments, insofar as they relate to the public sector, which are not addressed in IAS 39. These will be addressed by future projects of the IPSASB. In particular, the IPSASB acknowledges that future projects are required to address:

- Certain transactions undertaken by central banks; and
- Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

BC3. In developing this Standard, the IPSASB agreed to retain the existing text of IAS 39 wherever consistent with existing IPSAS, and deal with certain public sector specific issues through additional application guidance.

BC4. In September 2007, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* which introduced "comprehensive income" into the presentation of financial statements. As the IPSASB has not yet considered comprehensive income, along with some of the other amendments proposed in IAS 1, those amendments have not been included in IPSAS 29. The text of IAS 39 as published at December 31, 2008, including certain amendments made by the IASB to IAS 39 in April 2009 as part of its improvements project, have been included in the text of IPSAS 29. The IPSASB acknowledged that IFRS 9, *Financial Instruments* was issued in November 2009. The IPSASB also recognized that the IASB plans further significant modifications to IAS 39. The IPSASB therefore decided to consider any modifications to IASB requirements for financial instruments as part of a future project.[2]

Scope

BC5. Assets and liabilities may arise out of contractual non-exchange revenue transactions. The initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC6. When this Standard was being developed, the IPSASB agreed that where an asset acquired in a non-exchange transaction was a financial asset, an entity:

- Initially recognized the asset using IPSAS 23; and
- Initially measured the asset using IPSAS 23 and, considered the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

[2] In January 2015 the IPSASB introduced the concept of investment entities in IPSAS 35 and required investment entities, as defined in that Standard, to measure their investments in controlled entities, other than those providing investment-related services or activities, at fair value through surplus or deficit.

As IPSAS 23 did not prescribe subsequent measurement or derecognition requirements for assets acquired in a non-exchange transaction, this Standard is applied to those assets if they are financial assets.

BC7. For liabilities, the IPSASB agreed that liabilities arising from conditions imposed on a transfer of resources in accordance with IPSAS 23 are initially recognized and initially measured using that IPSAS, as these liabilities usually do not meet the definition of a financial liability at initial recognition (see IPSAS 28). After initial recognition, if circumstances indicate that the liability is a financial liability, an entity assesses if the liability recognized in accordance with IPSAS 23 should be derecognized and a financial liability recognized in accordance with this Standard.

BC8. The IPSASB agreed that other liabilities that arise from non-exchange revenue transactions, for example, the return of resources based on a restriction on the use of an asset, are recognized and measured in accordance with this Standard if they meet the definition of a financial liability.

Initial Measurement

BC9. The IPSASB acknowledged that there was an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 required that assets acquired in a non-exchange revenue transaction are measured initially at fair value. This Standard required financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC10. At that time, the IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

Concessionary Loans

BC11. Concessionary loans can either be granted or received by an entity. They pose particular accounting issues because their terms are not market related. The IPSASB therefore considered how the off-market portion of a concessionary loan should be accounted for. In ED 38, the IPSASB proposed that an entity should account for concessionary loans by analyzing the substance of the transaction into its component parts and accounting for each component separately and that the IPSASB therefore determined that the off-market portion of a concessionary loan should be accounted for as follows:

- The issuer of a concessionary loan accounts for the off-market portion of the loan as an expense in the year the loan is issued; and
- The recipient of a concessionary loan accounts for the off-market portion of the loan in accordance with IPSAS 23.

BC12. Some respondents to ED 38 disagreed with the proposed treatment of concessionary loans because they do not believe that fair value is an appropriate measurement basis, while others disagreed with the proposed treatment of the off-market portion of concessionary loans as an expense.

BC13. Respondents who disagreed with fair value as a measurement basis cited both conceptual and practical difficulties in measuring concessionary loans at fair value. At a conceptual level, it was noted that some concessionary loans issued by public sector entities may not be available in an orderly market because of the risk profiles of the borrowers, e.g., small business loans, or loans granted by governments in their capacity as a lender of last resort. For loans that would not ordinarily be found in an orderly market, respondents argued that while it may be possible to obtain a fair value, that fair value does not provide a faithful

representation of the transaction. They argued that because an orderly market for such transactions does not exist, the transaction price on initial measurement represents the fair value of the loan. Those respondents who cited practical difficulties in determining fair value noted that, because of these difficulties, fair values are often determined using estimates. In their view the use of such estimates would make the information potentially unreliable. As a means of overcoming these practical difficulties, respondents suggested that, as an alternative to fair value, nominal cost or the lender's borrowing rate should be used as a measurement basis.

BC14. The IPSASB takes the view that the use of fair value enables the most faithfully representative determination of the concession element of a concessionary loan. Also, because the loans granted at no or low interest are not unique to the public sector, the IPSASB was not persuaded that there is a public sector specific reason to depart from the fair value principles in IAS 39. They also noted that IPSAS 30 requires specific disclosures on the measurement of financial instruments, including those instances where unobservable market inputs have been used. Consequently, the IPSASB decided to retain fair value as a measurement basis for concessionary loans.

BC15. Respondents who disagreed with expensing the off-market portion of the concessionary loan, noted that because the off-market portion represents a subsidy, it may be more appropriate to recognize an asset initially and recognize an expense subsequently by reducing this asset as and when the conditions of the subsidy are met or on a time proportion basis. The IPSASB, however, considered that the initial granting of the loan results in a commitment of resources, in the form of a loan and a subsidy, on day one. The IPSASB was of the view that initial recognition of this subsidy as an expense on recognition of the transaction provides the most useful information for accountability purposes.

Financial Guarantees Issued Through a Non-Exchange Transaction

BC16. The IPSASB acknowledged that in the public sector financial guarantee contracts are frequently issued through a non-exchange transaction, i.e., they are issued for no consideration or for nominal consideration, often in order to further the issuer's broad social policy objectives, rather than for commercial purposes. While entities may issue guarantees at below fair value in the private sector, this is not common and is for commercial reasons, such as when a controlling entity issues a guarantee to a holder on behalf of a controlled entity. In the public sector the maximum credit risk exposure of such guarantees may be extremely large. Such guarantees are generally issued because an active market does not exist and, in some cases, it would be impossible for the guarantee to be provided by a private sector issuer because of the maximum extent of the credit risk exposure. The IPSASB considered the approach to measurement at initial recognition, and subsequent to initial recognition, for such financial guarantee contracts.

BC17. Where the financial guarantee contract is entered into for consideration, the IPSASB considered whether the amount of such consideration should be deemed to be a fair value. Application Guidance in IAS 39 states that "the fair value of a financial instrument on initial recognition is normally the transaction price." In the public sector the IPSASB considered that in many cases the transaction price (consideration) related to a financial guarantee contract will not reflect fair value and that recognition at such an amount would be an inaccurate and misleading reflection of the issuer's exposure to financial risk. The IPSASB concluded that where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and therefore represents a fair value. If the consideration does represent a fair value, the IPSASB concluded that entities should recognize the financial guarantee at the amount of the consideration and that subsequent measurement should be at the higher of the amount determined in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized, less, when appropriate, the cumulative amount of revenue recognized in accordance with IPSAS 47, *Revenue*. Where the transaction consideration is not a fair value, an entity should be required to determine measurement at initial recognition in the same way as if no consideration had been paid.

BC18. The IPSASB therefore considered the approach to the determination of measurement at initial recognition for financial guarantee contracts provided for no consideration or for a consideration that is not a fair value. The IPSASB identified a valuation hierarchy that could be used in initially measuring a financial guarantee contract provided for no consideration or for consideration that is not a fair value:

- An entity assesses whether the fair value of the financial guarantee contract can be determined by observing a price in an active market;
- Where a price cannot be determined by observing a price in an active market, an entity uses a valuation technique; and
- If fair value cannot be determined for a financial guarantee contract, an entity measures a financial guarantee contract at initial recognition and subsequently in accordance with IPSAS 19.

BC19. There may be cases where an active market exists for financial guarantee contracts equivalent to or similar to that issued. In such cases a fair value should be estimated through observation of that active market. Where no active market exists, the IPSASB considered whether an entity should be required to move immediately to an approach based on IPSAS 19. The IPSASB noted that many valuation techniques are highly complex and, as noted in paragraphs AG107 and AG108 may give rise to a range of outcomes. It is arguable that the cost of developing such techniques exceeds the benefits to users of the information provided. An approach based on IPSAS 19 may provide a more reliable and understandable measure of an issuer's risk exposure as a result of entering into a financial guarantee contract. The IPSASB also acknowledged that where an entity does not recognize a liability in accordance with IPSAS 19, the entity makes the disclosures required for contingent liabilities in IPSAS 19 unless an outflow of resources is remote. The information provided to users on risk exposure related to financial guarantees provided at nil or nominal consideration also includes the credit risk disclosures in IPSAS 30, *Financial Instruments: Disclosures*. Conversely, the IPSASB acknowledged that there are current IPSAS that require the use of experts, such as actuaries, to develop valuation techniques that are inherently complex, such as IPSAS 39, *Employee Benefits*. On balance the IPSASB concluded that, in the absence of an active market, entities should be permitted to use a valuation technique that does not rely on an observable market where they are satisfied that such a technique provides a reliable and understandable method of determining a fair value for a financial guarantee contract entered into by an issuer by means of a non-exchange transaction. This is particularly the case for non-standard guarantees where there is limited data available on defaults and credit risk.

Revision of IPSAS 29 as a result of the IPSASB's The Applicability of IPSAS, issued in April 2016

BC20. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

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

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

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

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

Revision of IPSAS 29 as a result of Improvements to IPSAS, 2021

BC21. The IPSASB reviewed the revisions to IAS 39, *Financial Instruments: Recognition and Measurement*, included in *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) issued by the IASB in September 2019, and the IASB's rationale for making these amendments as set out in its Basis for

Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform*.

BC22. The IPSASB reviewed the revisions to IAS 39, *Financial Instruments: Recognition and Measurement*, included in *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as Interest Rate Benchmark Reform—Phase 2.

BC23. In addition to the above amendments to IPSAS 29 (as amended by IPSAS 41 when it was first published in 2018), the IPSASB considered that entities still applying IPSAS 29 (prior to the adoption of IPSAS 41) could benefit from the amendments to the hedging section included in paragraphs 113A–113ZC of IPSAS 29 (as amended by IPSAS 41 when it was first published in 2018) and the amendments on the practical expedient for changes in the contractual cash flows of financial instruments included in paragraphs 72A–72E of IPSAS 41.

BC24. While the amendments in paragraphs 72A–72E of IPSAS 41 were unnecessary in the IASB's IPSAS 29 equivalent standard, IAS 39, they are necessary in IPSAS 29 (prior to the adoption of IPSAS 41) because the sections on contractual cash flows are effective until January 1, 2023.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 29.

Section A–G

[Deleted]

Illustrative Examples

These examples accompany, but are not part of, IPSAS 29.

Hedging Interest Rate Risk for a Portfolio of Assets and Liabilities

IE1. On January 1, 20X1 Entity A identifies a portfolio comprising assets and liabilities whose interest rate risk it wishes to hedge. The liabilities include demandable deposit liabilities that the depositor may withdraw at any time without notice. For risk management purposes, the entity views all of the items in the portfolio as fixed rate items.

IE2. For risk management purposes, Entity A analyzes the assets and liabilities in the portfolio into repricing time periods based on expected repricing dates. The entity uses monthly time periods and schedules items for the next five years (i.e., it has 60 separate monthly time periods).[1] The assets in the portfolio are prepayable assets that Entity A allocates into time periods based on the expected prepayment dates, by allocating a percentage of all of the assets, rather than individual items, into each time period. The portfolio also includes demandable liabilities that the entity expects, on a portfolio basis, to repay between one month and five years and, for risk management purposes, are scheduled into time periods on this basis. On the basis of this analysis, Entity A decides what amount it wishes to hedge in each time period.

IE3. This example deals only with the repricing time period expiring in three months' time, i.e., the time period maturing on March 31, 20X1 (a similar procedure would be applied for each of the other 59 time periods). Entity A has scheduled assets of CU100 million and liabilities of CU80 million into this time period. All of the liabilities are repayable on demand.

IE4. Entity A decides, for risk management purposes, to hedge the net position of CU20 million and accordingly enters into an interest rate swap[2] on January 1, 20X1, to pay a fixed rate and receive London Interbank Offered Rate (LIBOR), with a notional principal amount of CU20 million and a fixed life of three months.

IE5. This example makes the following simplifying assumptions:

(a) The coupon on the fixed leg of the swap is equal to the fixed coupon on the asset;

(b) The coupon on the fixed leg of the swap becomes payable on the same dates as the interest payments on the asset; and

(c) The interest on the variable leg of the swap is the overnight LIBOR rate. As a result, the entire fair value change of the swap arises from the fixed leg only, because the variable leg is not exposed to changes in fair value due to changes in interest rates.

In cases when these simplifying assumptions do not hold, greater ineffectiveness will arise. (The ineffectiveness arising from (a) could be eliminated by designating as the hedged item a portion of the cash flows on the asset that are equivalent to the fixed leg of the swap).

IE6. It is also assumed that Entity A tests effectiveness on a monthly basis.

IE7. The fair value of an equivalent non-prepayable asset of CU20 million, ignoring changes in value that are not attributable to interest rate movements, at various times during the period of the hedge is as follows:

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[1] In this example principal cash flows have been scheduled into time periods but the related interest cash flows have been included when calculating the change in fair value of the hedged item. Other methods of scheduling assets and liabilities are also possible. Also, in this example, monthly repricing time periods have been used. An entity may choose narrower or wider time periods.

[2] This example uses a swap as the hedging instrument. An entity may use forward rate agreements or other derivatives as hedging instruments.

	Jan 1, 20X1	Jan 31, 20X1	Feb 1, 20X1	Feb 28, 20X1	Mar 31, 20X1
Fair value (asset) (CU)	20,000,000	20,047,408	20,047,408	20,023,795	Nil

IE8. The fair value of the swap at various times during the period of the hedge is as follows:

	Jan 1, 20X1	Jan 31, 20X1	Feb 1, 20X1	Feb 28, 20X1	Mar 31, 20X1
Fair value (liability) (CU)	Nil	(47,408)	(47,408)	(23,795)	Nil

Accounting Treatment

IE9. On January 1, 20X1, Entity A designates as the hedged item an amount of CU20 million of assets in the three-month time period. It designates as the hedged risk the change in the value of the hedged item (i.e., the CU20 million of assets) that is attributable to changes in LIBOR. It also complies with the other designation requirements set out in paragraphs 98(d) and AG162 of the Standard.

IE10. Entity A designates as the hedging instrument the interest rate swap described in paragraph IE4.

End of Month 1 (January 31, 20X1)

IE11. On January 31, 20X1 (at the end of month 1) when Entity A tests effectiveness, LIBOR has decreased. Based on historical prepayment experience, Entity A estimates that, as a consequence, prepayments will occur faster than previously estimated. As a result it re-estimates the amount of assets scheduled into this time period (excluding new assets originated during the month) as CU96 million.

IE12. The fair value of the designated interest rate swap with a notional principal of CU20 million is (CU47,408)[3] (the swap is a liability).

IE13. Entity A computes the change in the fair value of the hedged item, taking into account the change in estimated prepayments, as follows.

(a) First, it calculates the percentage of the initial estimate of the assets in the time period that was hedged. This is 20 percent (CU20 million ÷ CU100 million).

(b) Second, it applies this percentage (20 percent) to its revised estimate of the amount in that time period (CU96 million) to calculate the amount that is the hedged item based on its revised estimate. This is CU19.2 million.

(c) Third, it calculates the change in the fair value of this revised estimate of the hedged item (CU19.2 million) that is attributable to changes in LIBOR. This is CU45,511 (CU47,408[4] × (CU19.2 million ÷ CU20 million)).

[3] See paragraph IE8.

[4] i.e., CU20,047,408 – CU 20,000,000, see paragraph IE7.

IE14. Entity A makes the following accounting entries relating to this time period:

Dr		Cash	CU172,097	
	Cr	Surplus or deficit (interest revenue)[5]		CU172,097

To recognize the interest received on the hedged amount (CU19.2 million).

Dr		Surplus or deficit (interest expense)	CU179,268	
	Cr	Surplus or deficit (interest revenue)		CU179,268
	Cr	Cash		Nil

To recognize the interest received and paid on the swap designated as the hedging instrument.

Dr		Surplus or deficit (loss)	CU47,408	
	Cr	Derivative liability		CU47,408

To recognize the change in the fair value of the swap.

Dr		Separate line item in the statement of financial position	CU45,511	
	Cr	Surplus or deficit (gain)		CU45,511

To recognize the change in the fair value of the hedged amount.

IE15. The net result on surplus or deficit (excluding interest revenue and interest expense) is to recognize a loss of (CU1,897). This represents ineffectiveness in the hedging relationship that arises from the change in estimated prepayment dates.

Beginning of Month 2

IE16. On February 1, 20X1 Entity A sells a proportion of the assets in the various time periods. Entity A calculates that it has sold 81/3 percent of the entire portfolio of assets. Because the assets were allocated into time periods by allocating a percentage of the assets (rather than individual assets) into each time period, Entity A determines that it cannot ascertain into which specific time periods the sold assets were scheduled. Hence it uses a systematic and rational basis of allocation. Based on the fact that it sold a representative selection of the assets in the portfolio, Entity A allocates the sale proportionately over all time periods.

IE17. On this basis, Entity A computes that it has sold 81/3 percent of the assets allocated to the three-month time period, i.e., CU8 million (81/3 percent of CU96 million). The proceeds received are CU8,018,400, equal to the fair value of the assets.[6] On derecognition of the assets, Entity A also removes from the separate line item in the statement of financial position an amount that represents the change in the fair value of the hedged assets that it has now sold. This is 81/3 percent of the total line item balance of CU45,511, i.e., CU3,793.

[5] This example does not show how amounts of interest revenue and interest expense are calculated.

[6] The amount realized on sale of the asset is the fair value of a prepayable asset, which is less than the fair value of the equivalent non-prepayable asset shown in IE7.

IE18. Entity A makes the following accounting entries to recognize the sale of the asset and the removal of part of the balance in the separate line item in the statement of financial position:

Dr		Cash	CU8,018,400	
	Cr	Asset		CU8,000,000
	Cr	Separate line item in the statement of financial position		CU3,793
	Cr	Surplus or deficit (gain)		CU14,607

To recognize the sale of the asset at fair value and to recognize a gain on sale

Because the change in the amount of the assets is not attributable to a change in the hedged interest rate, no ineffectiveness arises.

IE19. Entity A now has CU88 million of assets and CU80 million of liabilities in this time period. Hence the net amount Entity A wants to hedge is now CU8 million and, accordingly, it designates CU8 million as the hedged amount.

IE20. Entity A decides to adjust the hedging instrument by designating only a proportion of the original swap as the hedging instrument. Accordingly, it designates as the hedging instrument CU8 million or 40 percent of the notional amount of the original swap with a remaining life of two months and a fair value of CU18,963.[7] It also complies with the other designation requirements in paragraphs 98(a) and AG162 of the Standard. The CU12 million of the notional amount of the swap that is no longer designated as the hedging instrument is either classified as held for trading with changes in fair value recognized in surplus or deficit, or is designated as the hedging instrument in a different hedge.[8]

IE21. As at February 1, 20X1 and after accounting for the sale of assets, the separate line item in the statement of financial position is CU41,718 (CU45,511 – CU3,793), which represents the cumulative change in fair value of CU17.6[9] million of assets. However, as at February 1, 20X1, Entity A is hedging only CU8 million of assets that have a cumulative change in fair value of CU18,963.[10] The remaining separate line item in the statement of financial position of CU22,755[11] relates to an amount of assets that Entity A still holds but is no longer hedging. Accordingly Entity A amortizes this amount over the remaining life of the time period, i.e., it amortizes CU22,755 over two months.

IE22. Entity A determines that it is not practicable to use a method of amortization based on a recalculated effective yield and hence uses a straight-line method.

End of Month 2 (February 28, 20X1)

IE23. On February 28, 20X1 when Entity A next tests effectiveness, LIBOR is unchanged. Entity A does not revise its prepayment expectations. The fair value of the designated interest rate swap with a notional principal of

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7 CU47,408 × 40 percent.

8 The entity could instead enter into an offsetting swap with a notional principle of CU12 million to adjust its position and designate as the hedging instrument all CU20 million of the existing swap and all CU12 million of the new offsetting swap.

9 CU19.2 million – (8⅓ × CU19.2 million).

10 CU41,718 × (CU8 million/CU17.6 million).

11 CU41,718 – CU18,963.

CU8 million is (CU9,518)[12] (the swap is a liability). Also, Entity A calculates the fair value of the CU8 million of the hedged assets as at February 28, 20X1 as CU8,009,518.[13]

IE24. Entity A makes the following accounting entries relating to the hedge in this time period:

Dr		Cash	CU71,707	
	Cr	Surplus or deficit (interest revenue)		CU71,707

To recognize the interest received on the hedged amount (CU8 million).

Dr		Surplus or deficit (interest expense)	CU71,707	
	Cr	Surplus or deficit(interest revenue)		CU62,115
	Cr	Cash		CU9,592

To recognize the interest received and paid on the portion of the swap designated as the hedging instrument (CU8 million).

Dr		Derivative liability	CU9,445	
	Cr	Surplus or deficit (gain)		CU9,445

To recognize the change in the fair value of the portion of the swap designated as the hedging instrument (CU8 million) (CU9,518 – CU18,963).

Dr		Surplus or deficit (loss)	CU9,445	
	Cr	Separate line item in the statement of financial position		CU9,445

To recognize the change in the fair value of the hedged amount (CU8,009,518 – CU8,018,963).

IE25. The net effect on surplus or deficit (excluding interest revenue and interest expense) is nil reflecting that the hedge is fully effective.

IE26. Entity A makes the following accounting entry to amortize the line item balance for this time period:

Dr		Surplus or deficit (loss)	CU11,378	
	Cr	Separate line item in the statement of financial position		CU11,378 (a)

To recognize the amortization charge for the period.

(a) CU22,755 ÷ 2

End of Month 3

IE27. During the third month there is no further change in the amount of assets or liabilities in the three-month time period. On March 31, 20X1 the assets and the swap mature and all balances are recognized in surplus or deficit.

IE28. Entity A makes the following accounting entries relating to this time period:

[12] CU23,795 [see paragraph IE8] × (CU8 million/CU20 million).

[13] CU20,023,795 [see paragraph IE7] × (CU8 million/CU20 million).

Dr		Cash	CU8,071,707	
	Cr	Asset (statement of financial position)		CU8,000,000
	Cr	Surplus or deficit (interest revenue)		CU71,707

To recognize the interest and cash received on maturity of the hedged amount (CU8 million).

Dr		Surplus or deficit (interest expense)	CU71,707	
	Cr	Surplus or deficit (interest revenue)		CU62,115
	Cr	Cash		CU9,592

To recognize the interest received and paid on the portion of the swap designated as the hedging instrument (CU8 million).

Dr		Derivative liability	CU9,518	
	Cr	Surplus or deficit (gain)		CU9,518

To recognize the expiry of the portion of the swap designated as the hedging instrument (CU8 million).

Dr		Surplus or deficit (loss)	CU9,518	
	Cr	Separate line item in the statement of financial position		CU9,518

To remove the remaining line item balance on expiry of the time period.

IE29. The net effect on surplus or deficit (excluding interest revenue and interest expense) is nil reflecting that the hedge is fully effective.

IE30. Entity A makes the following accounting entry to amortize the line item balance for this time period:

Dr		Surplus or deficit (loss)	CU11,377	
	Cr	Separate line item in the statement of financial position		CU11,377[(a)]

To recognize the amortization charge for the period.

(a) CU22,755 ÷ 2

Summary

IE31. The tables below summarize:

(a) Changes in the separate line item in the statement of financial position;

(b) The fair value of the derivative;

(c) The surplus or deficit effect of the hedge for the entire three-month period of the hedge; and

(d) Interest revenue and interest expense relating to the amount designated as hedged.

Description	**Jan 1, 20X1**	**Jan 31, 20X1**	**Feb 1, 20X1**	**Feb 28, 20X1**	**Mar 31, 20X1**
	CU	**CU**	**CU**	**CU**	**CU**
Amount of asset hedged	**20,000,000**	**19,200,000**	**8,000,000**	**8,000,000**	**8,000,000**
(a) **Changes in the separate line item in the statement of financial position**					
Brought forward:					
Balance to be amortized	Nil	Nil	Nil	22,755	11,377
Remaining balance	Nil	Nil	45,511	18,963	9,518
Less: Adjustment on sale of asset	Nil	Nil	(3,793)	Nil	Nil
Adjustment for change in fair value of the hedged asset	Nil	45,511	Nil	(9,445)	(9,518)
Amortization	Nil	Nil	Nil	(11,378)	(11,377)
Carried forward:					
Balance to be amortized	**Nil**	**Nil**	**22,755**	**11,377**	**Nil**
Remaining balance	**Nil**	**45,511**	**18,963**	**9,518**	**Nil**
(b) **The fair value of the derivative**					
CU20,000,000	Nil	47,408	–	–	–
CU12,000,000	Nil	–	28,445	No longer designated as the hedging instrument.	
CU8,000,000	Nil	–	18,963	9,518	Nil
Total	**Nil**	**47,408**	**47,408**	**9,518**	**Nil**
(c) **Effect of the hedge on surplus or deficit**					
Change in line item: asset	Nil	45,511	N/A	(9,445)	(9,518)
Change in derivative fair value	Nil	(47,408)	N/A	9,445	9,518
Net effect	**Nil**	**(1,897)**	**N/A**	**Nil**	**Nil**
Amortization	**Nil**	**Nil**	**N/A**	**(11,378)**	**(11,377)**

In addition, there is a gain on sale of assets of CU14,607 at February 1, 20X1.

(d) **Interest revenue and interest expense relating to the amount designated as hedged**					
Interest revenue					
– on the asset	Nil	172,097	N/A	71,707	71,707
– on the swap	Nil	179,268	N/A	62,115	62,115

Interest expense					
– on the swap	Nil	(179,268)	N/A	(71,707)	(71,707)

IE32–IE50. [Deleted]

COMPARISON WITH IAS 39

IPSAS 29, *Financial Instruments: Recognition and Measurement* is drawn primarily from IAS 39, *Financial Instruments: Recognition and Measurement* (including amendments up to December 31, 2008 as well as amendments made by the IASB to IAS 39 as part of its *Improvements to IFRS* in April 2009). The main differences between IPSAS 29 and IAS 39 are as follows:

- IPSAS 29 contains additional application guidance to deal with concessionary loans and financial guarantee contracts entered into at nil or nominal consideration. IAS 39 does not deal with these areas.
- In certain instances, IPSAS 29 uses different terminology from IAS 39. The most significant examples are the use of the terms “statement of financial performance” and “net assets/equity.” The equivalent terms in IAS 39 are “statement of comprehensive income or separate income statement (if presented)” and “equity.”
- IPSAS 29 does not distinguish between “revenue” and “income.” IAS 39 distinguishes between “revenue and “income,” with “income” having a broader meaning than the term “revenue.”
- Principles from IFRIC 9, *Reassessment of Embedded Derivatives* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* have been included as authoritative appendices to IPSAS 29. The IASB issues IFRIC as separate documents.

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IPSAS 30, *FINANCIAL INSTRUMENTS: DISCLOSURES*

Acknowledgment

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

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IPSAS 30, *FINANCIAL INSTRUMENTS: DISCLOSURES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

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

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

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 38, *Disclosure of Interests in Other Entities* (issued January 2015)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 30

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
2	Amended	IPSAS 41 August 2018
3	Amended	IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016 IPSAS 41 August 2018
4	Amended	IPSAS 41 August 2018
5	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
5A	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
6	Deleted	*The Applicability of IPSAS* April 2016
7	Deleted	*The Applicability of IPSAS* April 2016
8	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
11	Amended	IPSAS 41 August 2018
12	Amended	IPSAS 41 August 2018
13	Amended	IPSAS 41 August 2018
13A	New	IPSAS 41 August 2018
14	Amended	IPSAS 41 August 2018
Heading above paragraph 14A	New	IPSAS 41 August 2018
14A	New	IPSAS 41 August 2018
14B	New	IPSAS 41 August 2018
15	Deleted	IPSAS 41 August 2018
15A	New	IPSAS 41 August 2018
15B	New	IPSAS 41 August 2018
15C	New	IPSAS 41 August 2018
16	Deleted	IPSAS 41 August 2018
Heading above paragraph 17	Deleted	IPSAS 41 August 2018
17	Deleted	IPSAS 41 August 2018
Heading above paragraph 17A	New	IPSAS 41 August 2018
17A	New	IPSAS 41 August 2018
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17C	New	IPSAS 41 August 2018
17D	New	IPSAS 41 August 2018
17E	New	IPSAS 41 August 2018
17F	New	IPSAS 41 August 2018
18	Amended	IPSAS 41 August 2018
20	Deleted	IPSAS 41 August 2018

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20A	New	IPSAS 41 August 2018
24	Amended	IPSAS 41 August 2018
24A	New	IPSAS 41 August 2018
25A	New	IPSAS 41 August 2018
25B	New	IPSAS 41 August 2018
25C	New	IPSAS 41 August 2018
25D	New	IPSAS 41 August 2018
26	Deleted	IPSAS 41 August 2018
Heading above paragraph 26A	New	IPSAS 41 August 2018
26A	New	IPSAS 41 August 2018
26B	New	IPSAS 41 August 2018
26C	New	IPSAS 41 August 2018
Heading above paragraph 27	New	IPSAS 41 August 2018
27	Deleted	IPSAS 41 August 2018
27A	New	IPSAS 41 August 2018
27B	New	IPSAS 41 August 2018
27C	New	IPSAS 41 August 2018
27D	New	IPSAS 41 August 2018
27E	New	IPSAS 41 August 2018
27F	New	IPSAS 41 August 2018
Heading above paragraph 28	New	IPSAS 41 August 2018
28	Deleted	IPSAS 41 August 2018
28A	New	IPSAS 41 August 2018
28B	New	IPSAS 41 August 2018
28C	New	IPSAS 41 August 2018
28D	New	IPSAS 41 August 2018
28E	New	IPSAS 41 August 2018
28F	New	IPSAS 41 August 2018
Heading above paragraph 28G	New	IPSAS 41 August 2018
28G	New	IPSAS 41 August 2018

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28H	New	*Improvements to IPSAS* January 2022
Heading above paragraph 28I	New	*Improvements to IPSAS* January 2022
28I	New	*Improvements to IPSAS* January 2022
28J	New	*Improvements to IPSAS* January 2022
30A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
30B	New	IPSAS 46 May 2023
30C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
30D	New	IPSAS 46 May 2023
30E	New	IPSAS 46 May 2023
30F	New	IPSAS 46 May 2023
30G	New	IPSAS 46 May 2023
30H	New	IPSAS 46 May 2023
30I	New	IPSAS 46 May 2023
31	Deleted	IPSAS 46 May 2023
32	Deleted	IPSAS 46 May 2023
33	Deleted	IPSAS 46 May 2023
34	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
35	Amended	IPSAS 41 August 2018 IPSAS 43 January 2022
36	Amended	IPSAS 41 August 2018
37	Amended	IPSAS 41 August 2018
37A	New	IPSAS 41 August 2018
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41	Amended	IPSAS 41 August 2018
Heading above paragraph 42A	New	IPSAS 41 August 2018

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42A	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
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42C	New	IPSAS 41 August 2018
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Heading above paragraph 42F	New	IPSAS 41 August 2018
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42G	New	IPSAS 41 August 2018
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42H	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
42I	New	IPSAS 41 August 2018
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42K	New	IPSAS 41 August 2018
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Heading above paragraph 42M	New	IPSAS 41 August 2018
42M	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
42N	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
43	Amended	IPSAS 41 August 2018
Heading above paragraph 44	Deleted	IPSAS 41 August 2018
44	Deleted	IPSAS 41 August 2018
45	Amended	IPSAS 41 August 2018
Heading above paragraph 49A	New	IPSAS 41 August 2018
49A	New	IPSAS 41 August 2018
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49D	New	IPSAS 41 August 2018

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49G	New	IPSAS 41 August 2018
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52A	New	IPSAS 33 January 2015
52B	New	IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 38 January 2015
52C	New	*Improvements to IPSAS* April 2016
52D	New	*The Applicability of IPSAS* April 2016
52E	New	IPSAS 39 July 2016
52F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
52G	Amended	*COVID-19: Deferral of Effective Dates* November 2020
52H	New	*Improvements to IPSAS* January 2022
52I	New	*Improvements to IPSAS* January 2022
52J	New	*Improvements to IPSAS* January 2022

Paragraph Affected	How Affected	Affected By
52K	New	*Improvements to IPSAS* January 2022
52L	New	IPSAS 43 January 2022
52M	New	IPSAS 46 May 2023
52N	New	IPSAS 47 May 2023
52O	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
53	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
AG1	Amended	IPSAS 41 August 2018
Headings above paragraph AG4	Deleted	IPSAS 41 August 2018
AG4	Deleted	IPSAS 41 August 2018
AG5	Amended	*Improvements to IPSAS* January 2020 IPSAS 41 August 2018
AG6	Amended	IPSAS 38 January 2015
Heading above paragraph AG8A	New	IPSAS 41 August 2018
AG8A	New	IPSAS 41 August 2018
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AG9	Amended	IPSAS 41 August 2018
AG10	Amended	IPSAS 41 August 2018
AG16	Amended	IPSAS 43 January 2022

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AG29	Amended	IPSAS 41 August 2018
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AG51	New	IPSAS 41 August 2018
Heading above paragraph AG52	New	IPSAS 41 August 2018
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AG53	New	IPSAS 41 August 2018
AG54	New	IPSAS 41 August 2018
Heading above paragraph AG55	New	IPSAS 41 August 2018
AG55	New	IPSAS 41 August 2018
Heading above paragraph IG3	Deleted	IPSAS 41 August 2018
IG3	Deleted	IPSAS 41 August 2018
IG4	Deleted	IPSAS 41 August 2018
Heading above paragraph IG7	Deleted	IPSAS 41 August 2018
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IG9	Deleted	IPSAS 41 August 2018
IG10	Deleted	IPSAS 41 August 2018
IG11	Deleted	IPSAS 41 August 2018
Heading above paragraph IG13A	New	*Improvements to IPSAS* January 2020
IG13A	New	*Improvements to IPSAS* January 2020
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IG13C	New	*Improvements to IPSAS* January 2020
IG14	Amended	IPSAS 41 August 2018
IG15	Amended	IPSAS 41 August 2018

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		IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
IG16	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
Heading above paragraph IG22A	New	*Improvements to IPSAS* January 2020
IG22A	New	*Improvements to IPSAS* January 2020
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IG22B	New	*Improvements to IPSAS* January 2020
Heading above paragraph IG22C	New	*Improvements to IPSAS* January 2020
IG22C	New	*Improvements to IPSAS* January 2020
IG22D	New	*Improvements to IPSAS* January 2020
IG23	Amended	*Improvements to IPSAS* January 2020
Heading above paragraph IG25	Deleted	IPSAS 41 August 2018
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IG27	Deleted	IPSAS 41 August 2018
Heading above paragraph IG28	Deleted	IPSAS 41 August 2018
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IG36	Amended	IPSAS 41 August 2018
Heading above paragraph IG41	New	IPSAS 41 August 2018
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IPSAS 30, *FINANCIAL INSTRUMENTS: DISCLOSURES*

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

Objective

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

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

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

2. The principles in this Standard complement the principles for recognizing, measuring, and presenting financial assets and financial liabilities in IPSAS 28, *Financial Instruments: Presentation* and IPSAS 41, *Financial Instruments*.

Scope

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

   (a) **Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* or IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35, or IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 41; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures unless the derivative meets the definition of an equity instrument in IPSAS 28.**

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

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

      (i) **Derivatives that are embedded in insurance contracts if IPSAS 41 requires the entity to account for them separately; and**

      (ii) **An issuer of financial guarantee contracts if the issuer applies IPSAS 41 in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply those standards in recognizing and measuring them.**

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

   (d) **Financial instruments, contracts, and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payment applies, except for contracts within the scope of paragraphs 6–8 of IPSAS 41, to which that Standard applies.**

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

4. This Standard applies to recognized and unrecognized financial instruments. Recognized financial instruments include financial assets and financial liabilities that are within the scope of IPSAS 41. Unrecognized financial instruments include some financial instruments that, although outside the scope of IPSAS 41, are within the scope of this Standard (such as some loan commitments).

5. This Standard applies to contracts to buy or sell a non-financial item that are within the scope of IPSAS 41 (see paragraphs 6–8 of IPSAS 41).

5A. The credit risk disclosure requirements in paragraphs 42A–42N apply to those rights for receivables that result from revenue transactions within the scope of IPSAS 47, *Revenue* which give rise to financial instruments for the purpose of recognizing impairment gains or losses in accordance with paragraph 3 of IPSAS 41. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

6. [Deleted]

7. [Deleted]

Definitions

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

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

Credit risk rating grades is a rating of credit risk based on the risk of a default occurring on the financial instrument.

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

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

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

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

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

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Classes of Financial Instruments and Level of Disclosure

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

Significance of Financial Instruments for Financial Position and Financial Performance

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

Statement of Financial Position

Categories of Financial Assets and Financial Liabilities

11. The carrying amounts of each of the following categories, as defined in IPSAS 41, shall be disclosed either in the statement of financial position or in the notes:

    (a) Financial assets measured at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 152 of IPSAS 41, and (ii) those mandatorily measured at fair value through surplus or deficit in accordance with IPSAS 41;

    (b) [Deleted]

    (c) [Deleted]

    (d) [Deleted]

    (e) Financial liabilities at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 152 of IPSAS 41, and (ii) those that meet the definition of held for trading in IPSAS 41;

    (f) Financial assets measured at amortized cost;

    (g) Financial liabilities measured at amortized cost; and

    (h) Financial assets measured at fair value through net assets/equity, showing separately (i) financial assets that are measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 106 of IPSAS 41.

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

12. If the entity has designated as measured at fair value through surplus or deficit a financial asset (or group of financial assets) that would otherwise be measured at fair value through net assets/equity or amortized cost, it shall disclose:

    (a) The maximum exposure to credit risk (see paragraph 43(a)) of the financial asset (or group of financial assets) at the end of the reporting period.

    (b) The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk (see paragraph 43(b)).

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

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

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

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

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

13. If the entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 46 of IPSAS 41 and is required to present the effects of changes in that liability's credit risk in net assets/equity (see paragraph 108 of IPSAS 41), it shall disclose:

(a) The amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs AG236–AG243 of IPSAS 41 for guidance on determining the effects of changes in a liability's credit risk);

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

(c) Any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers.

(d) If a liability is derecognized during the period, the amount (if any) presented in net assets/equity that was realized at derecognition.

13A. If an entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 46 of IPSAS 41 and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in surplus or deficit (see paragraphs 108 and 109 of IPSAS 41), it shall disclose:

(a) The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs AG236–AG243 of IPSAS 41 for guidance on determining the effects of changes in a liability's credit risk); and

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

14. The entity shall also disclose:

(a) A detailed description of the methods used to comply with the requirements in paragraphs 12(c), 13(a) and 13A(a) and paragraph 108(a) of IPSAS 41, including an explanation of why the method is appropriate.

(b) If the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in paragraph 12(c), 13(a) or 13A(a) or paragraph 108(a) of IPSAS 41 does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

(c) A detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in net assets/equity would create or enlarge an accounting mismatch in surplus or deficit (see paragraphs 108 and 109 of IPSAS 41). If an entity is required to present the effects of changes in a liability's credit risk in surplus or deficit (see paragraph 109 of IPSAS 41), the disclosure must include a detailed description of the economic relationship described in paragraph AG229 of IPSAS 41.

Investments in Equity Instruments Designated at Fair Value through Net Assets/Equity

14A. If an entity has designated investments in equity instruments to be measured at fair value through net assets/equity, as permitted by paragraph 106 of IPSAS 41, it shall disclose:

(a) Which investments in equity instruments have been designated to be measured at fair value through net assets/equity.

(b) The reasons for using this presentation alternative.

(c) The fair value of each such investment at the end of the reporting period.

(d) Dividends recognized during the period, showing separately those related to investments derecognized during the reporting period and those related to investments held at the end of the reporting period.

(e) Any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers.

14B. If an entity derecognized investments in equity instruments measured at fair value through net assets/equity during the reporting period, it shall disclose:

(a) The reasons for disposing of the investments.

(b) The fair value of the investments at the date of derecognition.

(c) The cumulative gain or loss on disposal.

Reclassification

15. [Deleted]

15A. An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 54 of IPSAS 41. For each such event, an entity shall disclose:

(a) The date of reclassification.

(b) A detailed explanation of the change in management model and a qualitative description of its effect on the entity's financial statements.

(c) The amount reclassified into and out of each category.

15B. For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the fair value through surplus or deficit category so that they are measured at amortized cost or fair value through net assets/equity in accordance with paragraph 54 of IPSAS 41:

(a) The effective interest rate determined on the date of reclassification; and

(b) The interest revenue recognized.

15C. If, since its last reporting date, an entity has reclassified financial assets out of the fair value through net assets/equity category so that they are measured at amortized cost or out of the fair value through surplus or deficit category so that they are measured at amortized cost or fair value through net assets/equity it shall disclose:

(a) The fair value of the financial assets at the end of the reporting period; and

(b) The fair value gain or loss that would have been recognized in surplus or deficit or net assets/equity during the reporting period if the financial assets had not been reclassified.

16. [Deleted]

17. [Deleted]

Offsetting Financial Assets and Financial Liabilities

17A. The disclosures in paragraphs 17B–17E supplement the other disclosure requirements of this Standard and are required for all recognized financial instruments that are set off in accordance with paragraph 47 of IPSAS 28. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with paragraph 47 of IPSAS 28.

17B. An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities that are within the scope of paragraph 17A.

17C. To meet the objective in paragraph 17B, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognized financial assets and recognized financial liabilities that are within the scope of paragraph 17A:

(a) The gross amounts of those recognized financial assets and recognized financial liabilities;

(b) The amounts that are set off in accordance with the criteria in paragraph 47 of IPSAS 28 when determining the net amounts presented in the statement of financial position;

(c) The net amounts presented in the statement of financial position;

(d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 17C(b), including:

(i) Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in paragraph 47 of IPSAS 28; and

(ii) Amounts related to financial collateral (including cash collateral); and

(e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

17D. The total amount disclosed in accordance with paragraph 17C(d) for an instrument shall be limited to the amount in paragraph 17C(c) for that instrument.

17E. An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 17C(d), including the nature of those rights.

17F. If the information required by paragraphs 17B–17E is disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes.

Collateral

18. An entity shall disclose:

(a) The carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 34(a) of IPSAS 41; and

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

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

(a) The fair value of the collateral held;

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

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

Allowance Account for Credit Losses

20. [Deleted]

20A. The carrying amount of financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the statement of financial position as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements.

Compound Financial Instruments with Multiple Embedded Derivatives

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

Defaults and Breaches

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

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

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

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

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

Statement of Financial Performance

Items of Revenue, Expense, Gains, or Losses

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

    (a) Net gains or net losses on:

        (i) Financial assets or financial liabilities measured at fair value through surplus or deficit, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 152 of IPSAS 41, and those on financial assets or financial liabilities that are mandatorily measured at fair value through surplus or deficit in accordance with IPSAS 41 (e.g., financial liabilities that meet the definition of held for trading in IPSAS 41). For financial liabilities designated as at fair value through surplus or deficit, an entity shall show separately the amount of gain or loss recognized in net assets/equity and the amount recognized in surplus or deficit;

        (ii) [Deleted]

        (iii) [Deleted]

        (iv) [Deleted]

        (v) Financial liabilities measured at amortized cost;

        (vi) Financial assets measured at amortized cost;

(vii) Investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41; and

(viii) Financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41, showing separately the amount of gain or loss recognized in net assets/equity during the period and the amount reclassified upon derecognition from accumulated net assets/equity to surplus or deficit for the period.

(b) Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are measured at amortized cost or that are measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41 (showing these amounts separately); or financial liabilities that are not measured at fair value through surplus or deficit;

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

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

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

(d) [Deleted]

(e) [Deleted]

24A. An entity shall disclose an analysis of the gain or loss recognized in the statement of financial performance arising from the derecognition of financial assets measured at amortized cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognizing those financial assets.

Other Disclosures

Accounting Policies

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

Hedge Accounting

25A. An entity shall apply the disclosure requirements in paragraphs 25B–28F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(a) An entity's risk management strategy and how it is applied to manage risk;

(b) How the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(c) The effect that hedge accounting has had on the entity's statement of financial position, statement of financial performance and statement of changes in net assets/equity.

25B. An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report that is available to users of the financial statements on the same

terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

25C. When paragraphs 26A–28F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

25D. To meet the objectives in paragraph 25A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this Standard.

26. [Deleted]

The Risk Management Strategy

26A. An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):

(a) How each risk arises.

(b) How the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.

(c) The extent of risk exposures that the entity manages.

26B. To meet the requirements in paragraph 26A, the information should include (but is not limited to) a description of:

(a) The hedging instruments that are used (and how they are used) to hedge risk exposures;

(b) How the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and

(c) How the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.

26C. When an entity designates a specific risk component as a hedged item (see paragraph 128 of IPSAS 41) it shall provide, in addition to the disclosures required by paragraphs 26A and 26B, qualitative or quantitative information about:

(a) How the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and

(b) How the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 percent of the changes in fair value of the item as a whole).

The Amount, Timing and Uncertainty of Future Cash Flows

27. [Deleted]

27A. Unless exempted by paragraph 27C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

27B. To meet the requirement in paragraph 27A, an entity shall provide a breakdown that discloses:

(a) A profile of the timing of the nominal amount of the hedging instrument; and

(b) If applicable, the average price or rate (for example strike or forward prices etc.) of the hedging instrument.

27C. In situations in which an entity frequently resets (i.e., discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (i.e., the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph AG317(b) of IPSAS 41) the entity:

(a) Is exempt from providing the disclosures required by paragraphs 27A and 27B.

(b) Shall disclose:

(i) Information about what the ultimate risk management strategy is in relation to those hedging relationships;

(ii) A description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and

(iii) An indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.

27D. An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.

27E. If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.

27F. For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The Effects of Hedge Accounting on Financial Position and Performance

28. [Deleted]

28A. An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):

(a) The carrying amount of the hedging instruments (financial assets separately from financial liabilities);

(b) The line item in the statement of financial position that includes the hedging instrument;

(c) The change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness for the period; and

(d) The nominal amounts (including quantities such as tonnes or cubic meters) of the hedging instruments.

28B. An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

(a) For fair value hedges:

(i) The carrying amount of the hedged item recognized in the statement of financial position (presenting assets separately from liabilities);

(ii) The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognized in the statement of financial position (presenting assets separately from liabilities);

(iii) The line item in the statement of financial position that includes the hedged item;

(iv) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period; and

(v) The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 139 of IPSAS 41.

(b) For cash flow hedges and hedges of a net investment in a foreign operation:

(i) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period (i.e., for cash flow hedges the change in value used to determine the recognized hedge ineffectiveness in accordance with paragraph 140(c) of IPSAS 41);

(ii) The balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 140 and 142(a) of IPSAS 41; and

(iii) The balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

28C. An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

(a) For fair value hedges:

(i) Hedge ineffectiveness—i.e., the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognized in surplus or deficit (or net assets/equity for hedges of an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106 of IPSAS 41); and

(ii) The line item in the statement of financial performance that includes the recognized hedge ineffectiveness.

(b) For cash flow hedges and hedges of a net investment in a foreign operation:

(i) Hedging gains or losses of the reporting period that were recognized in net assets/equity;

(ii) Hedge ineffectiveness recognized in surplus or deficit;

(iii) The line item in the statement of financial performance that includes the recognized hedge ineffectiveness;

(iv) The amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into surplus or deficit as a reclassification adjustment (see IPSAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected surplus or deficit);

(v) The line item in the statement of financial performance that includes the reclassification adjustment (see IPSAS 1); and

(vi) For hedges of net positions, the hedging gains or losses recognized in a separate line item in the statement of financial performance (see paragraph 149 of IPSAS 41).

28D. When the volume of hedging relationships to which the exemption in paragraph 27C applies is unrepresentative of normal volumes during the period (i.e., the volume at the reporting date does not reflect

the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.

28E. An entity shall provide a reconciliation of each component of net assets/equity and an analysis of net assets/equity in accordance with IPSAS 1 that, taken together:

(a) Differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 28C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with paragraph 140(d)(i) and (iii) of IPSAS 41;

(b) Differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 144 of IPSAS 41; and

(c) Differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with paragraph 145 of IPSAS 41.

28F. An entity shall disclose the information required in paragraph 28E separately by risk category. This disaggregation by risk may be provided in the notes to the financial statements.

Option to Designate a Credit Exposure as Measured at Fair Value Through Surplus or Deficit

28G. If an entity designated a financial instrument, or a proportion of it, as measured at fair value through surplus or deficit because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

(a) For credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through surplus or deficit in accordance with paragraph 152 of IPSAS 41, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;

(b) The gain or loss recognized in surplus or deficit on designation of a financial instrument, or a proportion of it, as measured at fair value through surplus or deficit in accordance with paragraph 152 of IPSAS 41; and

(c) On discontinuation of measuring a financial instrument, or a proportion of it, at fair value through surplus or deficit, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 155 of IPSAS 41 and the related nominal or principal amount (except for providing comparative information in accordance with IPSAS 1, an entity does not need to continue this disclosure in subsequent periods).

Uncertainty Arising from Interest Rate Benchmark Reform

28H. For hedging relationships to which an entity applies the exceptions set out in paragraphs 155D–155L of IPSAS 41 or paragraphs 113D–113N of IPSAS 29, *Financial Instruments: Recognition and Measurement* an entity shall disclose:

(a) The significant interest rate benchmarks to which the entity's hedging relationships are exposed;

(b) The extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

(c) How the entity is managing the process to transition to alternative benchmark rates;

(d) A description of significant assumptions or judgments the entity made in applying these paragraphs (for example, assumptions or judgments about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and

(e) The nominal amount of the hedging instruments in those hedging relationships.

Additional Disclosures Related to Interest Rate Benchmark Reform—Phase 2

28I. To enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy, an entity shall disclose information about:

(a) The nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages these risks; and

(b) The entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing the transition.

28J. To meet the objectives in paragraph 28I, an entity shall disclose:

(a) How the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;

(b) Disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:

(i) Non-derivative financial assets;

(ii) Non-derivative financial liabilities; and

(iii) Derivatives; and

(c) If the risks identified in paragraph 28J(a) have resulted in changes to an entity's risk management strategy (see paragraph 26A), a description of these changes.

Fair Value

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

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

30A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For financial instruments that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

30B. To meet the objectives in paragraph 30A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 30A, an entity shall disclose additional information necessary to meet those objectives.

30C. To meet the objectives in paragraph 30A, an entity shall disclose, at a minimum, the following information for each class of financial instruments (see paragraph 30D for information on determining appropriate classes of financial instruments) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) The fair value measurement at the end of the reporting period, and for non-recurring fair value measurements;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For financial instruments held at the end of the reporting period that are measured at fair value, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;

(d) For fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized;

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately); and

(iv) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers

and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 30E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those financial instruments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(h) For fair value measurements categorized within Level 3 of the fair value hierarchy:

(i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d); and

(ii) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.

30D. An entity shall determine the appropriate disaggregation of financial instruments on the basis of the following:

(a) The nature, characteristics and risks of the financial instruments; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of financial instruments for which disclosures about fair value measurements should be provided requires judgment. Financial instruments will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for a financial instrument, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

30E. An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 30C(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

(a) The date of the event or change in circumstances that caused the transfer;

(b) The beginning of the reporting period; and

(c) The end of the reporting period.

30F. If an entity makes an accounting policy decision to use the exception in paragraph AG143O of IPSAS 41, it shall disclose that fact.

30G. For each class of financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 30C(b), (d) and (h). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 30C(d). For such financial instruments, an entity does not need to provide the other disclosures required by this Standard.

30H. For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

30I. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

31. [Deleted]

32. [Deleted]

33. [Deleted]

34. In some cases, an entity does not recognize a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) nor based on a measurement technique that uses only data from observable markets (see paragraph AG117 of IPSAS 41). In such cases, the entity shall disclose by class of financial asset or financial liability:

(a) Its accounting policy for recognizing in surplus or deficit the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph AG117(b) of IPSAS 41);

(b) The aggregate difference yet to be recognized in surplus or deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference; and

(c) Why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

35. Disclosures of fair value are not required:

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

(b) [Deleted]

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

(d) For lease liabilities.

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

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

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

(c) Information about the market for the instruments;

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

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

Concessionary Loans

37. Concessionary loans are granted by entities on below market terms. Examples of concessionary loans that commonly have below market terms include loans to developing countries, small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. For concessionary loans granted and measured at amortized cost in accordance with paragraph 40 of IPSAS 41, an entity shall disclose:

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

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

(ii) The fair value adjustment on initial recognition;

(iii) Loans repaid during the period;

(iv) Impairment losses recognized;

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

(vi) Other changes.

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

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

(d) Valuation assumptions.

37A. For concessionary loans measured at fair value in accordance with paragraph 41 or 43 of IPSAS 41 an entity shall disclose:

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

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

(ii) The fair value adjustment on initial recognition;

(iii) Loans repaid during the period;

(iv) The fair value adjustment during the period (separate from initial recognition); and

(v) Other changes.

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

(c) The purpose and terms of the various types of loans, including the nature of the concession; and

(d) Valuation assumptions.

Nature and Extent of Risks Arising from Financial Instruments

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

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

39A. Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

Qualitative Disclosures

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

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

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

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

Quantitative Disclosures

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

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

(b) The disclosures required by paragraphs 43–49, to the extent not provided in accordance with (a).

(c) Concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

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

Credit Risk

Scope and Objectives

42A. An entity shall apply the disclosure requirements in paragraphs 42F–42N to financial instruments to which the impairment requirements in IPSAS 41 are applied. However:

(a) For receivables that result from revenue transactions that are within the scope of IPSAS 47 and lease receivables, paragraph 42J(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 87 of IPSAS 41, if those financial assets are modified while more than 30 days past due; and

(b) Paragraph 42K(b) does not apply to lease receivables.

42B. The credit risk disclosures made in accordance with paragraphs 42F–42N shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

(a) Information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses;

(b) Quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and

(c) Information about an entity's credit risk exposure (i.e., the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

42C. An entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

42D. To meet the objectives in paragraph 42B, an entity shall (except as otherwise specified) consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

42E. If the disclosures provided in accordance with paragraphs 42F–42N are insufficient to meet the objectives in paragraph 42B, an entity shall disclose additional information that is necessary to meet those objectives.

The Credit Risk Management Practices

42F. An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate:

(a) How an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:

(i) Financial instruments are considered to have low credit risk in accordance with paragraph 82 of IPSAS 41, including the classes of financial instruments to which it applies; and

(ii) The presumption in paragraph 83 of IPSAS 41, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted;

(b) An entity's definitions of default, including the reasons for selecting those definitions;

(c) How the instruments were grouped if expected credit losses were measured on a collective basis;

(d) How an entity determined that financial assets are credit-impaired financial assets;

(e) An entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and

(f) How the requirements in paragraph 84 of IPSAS 41 for the modification of contractual cash flows of financial assets have been applied, including how an entity:

(i) Determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with paragraph 77 of IPSAS 41; and

(ii) Monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with paragraph 75 of IPSAS 41.

42G. An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in paragraphs 73–93 of IPSAS 41. For this purpose an entity shall disclose:

(a) The basis of inputs and assumptions and the estimation techniques used to:

(i) Measure the 12-month and lifetime expected credit losses;

(ii) Determine whether the credit risk of financial instruments has increased significantly since initial recognition; and

(iii) Determine whether a financial asset is a credit-impaired financial asset.

(b) How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and

(c) Changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

42H. To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(a) The loss allowance measured at an amount equal to 12-month expected credit losses;

(b) The loss allowance measured at an amount equal to lifetime expected credit losses for:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from revenue transactions that are within the scope of IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) Financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognized during the reporting period.

42I. To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 42H, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 42H(a)–(c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:

(a) Changes because of financial instruments originated or acquired during the reporting period;

(b) The modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with IPSAS 41;

(c) Changes because of financial instruments that were derecognized (including those that were written-off) during the reporting period; and

(d) Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.

42J. To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses, an entity shall disclose:

(a) The amortized cost before the modification and the net modification gain or loss recognized for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses; and

(b) The gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.

42K. To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument:

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

(b) A narrative description of collateral held as security and other credit enhancements, including:

(i) A description of the nature and quality of the collateral held;

(ii) An explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and

(iii) Information about financial instruments for which an entity has not recognized a loss allowance because of the collateral.

(c) Quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.

42L. An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

Credit Risk Exposure

42M. To enable users of financial statements to assess an entity’s credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) For which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

(i) Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) Receivables that result from revenue transactions that are within the scope of IPSAS 47 or lease receivables for which the loss allowances are measured in accordance with paragraph 87 of IPSAS 41.

(c) That are purchased or originated credit-impaired financial assets.

42N. For receivables that result from revenue transactions that are within the scope of IPSAS 47 or lease receivables to which an entity applies paragraph 87 of IPSAS 41, the information provided in accordance with paragraph 42M may be based on a provision matrix (see paragraph AG199 of IPSAS 41).

43. For all financial instruments within the scope of this Standard, but to which the impairment requirements in IPSAS 41 are not applied, an entity shall disclose by class of financial instrument:

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

(b) A description of collateral held as security and other credit enhancements, and their financial effect (e.g., quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

(c) [Deleted]

(d) [Deleted]

44. [Deleted]

Collateral and Other Credit Enhancements Obtained

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

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

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

Liquidity Risk

46. An entity shall disclose:

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

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

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

Market Risk

Sensitivity Analysis

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

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

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

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

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

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

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

Other Market Risk Disclosures

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

Transfers of Financial Assets

49A. The disclosure requirements in paragraphs 49B–49H relating to transfers of financial assets supplement the other disclosure requirements of this Standard. An entity shall present the disclosures required by paragraphs 49B–49H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

(a) Transfers the contractual rights to receive the cash flows of that financial asset; or

(b) Retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

49B. An entity shall disclose information that enables users of its financial statements:

(a) To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and

(b) To evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

49C. For the purposes of applying the disclosure requirements in paragraphs 49E–49H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual

rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying the disclosure requirements in paragraphs 49E–49H, the following do not constitute continuing involvement:

(a) Normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;

(b) Forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or

(c) An arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 16(a)–(c) of IPSAS 41 are met.

Transferred Financial Assets that are Not Derecognized in Their Entirety

49D. An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 49B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognized in their entirety:

(a) The nature of the transferred assets.

(b) The nature of the risks and rewards of ownership to which the entity is exposed.

(c) A description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.

(d) When the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).

(e) When the entity continues to recognize all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.

(f) When the entity continues to recognize the assets to the extent of its continuing involvement (see paragraphs 17(c)(ii) and 27 of IPSAS 41), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognize, and the carrying amount of the associated liabilities.

Transferred Financial Assets that are Derecognized in Their Entirety

49E. To meet the objectives set out in paragraph 49B(b), when an entity derecognizes transferred financial assets in their entirety (see paragraph 17(a) and 17(c)(i) of IPSAS 41) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

(a) The carrying amount of the assets and liabilities that are recognized in the entity's statement of financial position and represent the entity's continuing involvement in the derecognized financial assets, and the line items in which the carrying amount of those assets and liabilities are recognized.

(b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognized financial assets.

(c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognized financial assets, and information showing how the maximum exposure to loss is determined.

(d) The undiscounted cash outflows that would or may be required to repurchase derecognized financial assets (e.g., the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.

(e) A maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.

(f) Qualitative information that explains and supports the quantitative disclosures required in (a)–(e).

49F. An entity may aggregate the information required by paragraph 49E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognized financial asset, and report it under one type of continuing involvement.

49G. In addition, an entity shall disclose for each type of continuing involvement:

(a) The gain or loss recognized at the date of transfer of the assets.

(b) Revenue and expenses recognized, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognized financial assets (e.g., fair value changes in derivative instruments).

(c) If the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (e.g., if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):

(i) When the greatest transfer activity took place within that reporting period (e.g., the last five days before the end of the reporting period),

(ii) The amount (e.g., related gains or losses) recognized from transfer activity in that part of the reporting period, and

(iii) The total amount of proceeds from transfer activity in that part of the reporting period.

An entity shall provide this information for each period for which a statement of net assets/equity is presented.

Supplementary Information

49H. An entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph 49B.

Initial Application of IPSAS 41

49I. In the reporting period that includes the date of initial application of IPSAS 41, the entity shall disclose the following information for each class of financial assets and financial liabilities as at the date of initial application:

(a) The original measurement category and carrying amount determined in accordance with IPSAS 29;

(b) The new measurement category and carrying amount determined in accordance with IPSAS 41;

(c) The amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through surplus or deficit but are no longer so designated, distinguishing between those that IPSAS 41 requires an entity to reclassify and those that an entity elects to reclassify at the date of initial application.

49J. In the reporting period that includes the date of initial application of IPSAS 41, an entity shall disclose qualitative information to enable users to understand:

(a) How it applied the classification requirements in IPSAS 41 to those financial assets whose classification has changed as a result of applying IPSAS 41.

(b) The reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through surplus or deficit at the date of initial application.

49K. In the reporting period that an entity first applies the classification and measurement requirements for financial assets in IPSAS 41 (i.e., when the entity transitions from IPSAS 29 to IPSAS 41 for financial assets), it shall present the disclosures set out in paragraphs 49L–49O of this Standard as required by paragraph 173 of IPSAS 41.

49L. When required by paragraph 49K, an entity shall disclose the changes in the classifications of financial assets and financial liabilities as at the date of initial application of IPSAS 41, showing separately:

(a) The changes in the carrying amounts on the basis of their measurement categories in accordance with IPSAS 29 (i.e., not resulting from a change in measurement attribute on transition to IPSAS 41); and

(b) The changes in the carrying amounts arising from a change in measurement attribute on transition to IPSAS 41.

The disclosures in this paragraph need not be made after the reporting period in which the entity initially applies the classification and measurement requirements for financial assets in IPSAS 41.

49M. When required by paragraph 49K, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortized cost and, in the case of financial assets, that have been reclassified out of fair value through surplus or deficit so that they are measured at fair value through net assets/equity, as a result of the transition to IPSAS 41:

(a) The fair value of the financial assets or financial liabilities at the end of the reporting period; and

(b) The fair value gain or loss that would have been recognized in surplus or deficit or net assets/equity during the reporting period if the financial assets or financial liabilities had not been reclassified. The disclosures in this paragraph need not be made after the reporting period in which the entity initially applies the classification and measurement requirements for financial assets in IPSAS 41.

49N. When required by paragraph 49K, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified out of the fair value through surplus or deficit category as a result of the transition to IPSAS 41:

(a) The effective interest rate determined on the date of initial application; and

(b) The interest revenue or expense recognized.

If an entity treats the fair value of a financial asset or a financial liability as the new gross carrying amount at the date of initial application (see paragraph 168 of IPSAS 41), the disclosures in this paragraph shall be made for each reporting period until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period in which the entity initially applies the classification and measurement requirements for financial assets in IPSAS 41.

49O. When an entity presents the disclosures set out in paragraphs 49K–49N, those disclosures, and the disclosures in paragraph 29 of this Standard, must permit reconciliation between:

(a) The measurement categories presented in accordance with IPSAS 29 and IPSAS 41; and

(b) The class of financial instrument

as at the date of initial application.

49P. On the date of initial application of paragraphs 73–93 of IPSAS 41, an entity is required to disclose information that would permit the reconciliation of the ending impairment allowances in accordance with IPSAS 29 and the provisions in accordance with IPSAS 19 to the opening loss allowances determined in accordance with IPSAS 41. For financial assets, this disclosure shall be provided by the related financial assets' measurement categories in accordance with IPSAS 29 and IPSAS 41, and shall show separately the effect of the changes in the measurement category on the loss allowance at that date.

49Q. In the reporting period that includes the date of initial application of IPSAS 41, an entity is not required to disclose the line item amounts that would have been reported in accordance with the classification and measurement requirements (which includes the requirements related to amortized cost measurement of financial assets and impairment in paragraphs 69–72 and 73–93 of IPSAS 41) of:

(a) IPSAS 41 for prior periods; and

(b) IPSAS 29 for the current period.

49R. In accordance with paragraph 161 of IPSAS 41, if it is impracticable (as defined in IPSAS 3) at the date of initial application of IPSAS 41 for an entity to assess a modified time value of money element in accordance with paragraphs AG68–AG70 of IPSAS 41 based on the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70 of IPSAS 41. An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70 of IPSAS 41 until those financial assets are derecognized.

49S. In accordance with paragraph 162 of IPSAS 41, if it is impracticable (as defined in IPSAS 3) at the date of initial application for an entity to assess whether the fair value of a prepayment feature was insignificant in accordance with paragraphs AG74(c) of IPSAS 41 based on the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG74 of IPSAS 41. An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG74 of IPSAS 41 until those financial assets are derecognized.

Effective Date and Transition

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

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

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

52A. **Paragraph 53 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment**

for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.

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

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

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

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

52F. **Paragraphs 2, 3, 4, 5, 8, 11, 12, 13, 14, 18, 24, 34, 35, 36, 37, 41, 43, 45, AG1, AG5, AG9, AG10, AG24, and AG29 were amended, paragraphs 16, 17, 20, 26, 27, 28 and 44 were deleted and several headings and paragraphs 5A, 13A, 14A, 14B, 15A, 15B, 15C, 17A, 17B, 17C, 17D, 17E, 17F, 20A, 24A, 25A, 25B, 25C, 25D, 26A, 26B, 26C, 27A, 27B, 27C, 27D, 27E, 27F, 28A, 28B, 28C, 28D, 28E, 28F, 28G, 37A, 39A, 42A, 42B, 42C, 42D, 42E, 42F, 42G, 42H, 42I, 42J, 42K, 42L, 42M, 42N, 49A, 49B, 49C, 49D, 49E, 49F, 49G, 49H, 49I, 49J, 49K, 49L, 49M, 49N, 49O, 49P, 49Q, 49R, 49S, 52C, 52D, AG8A, AG8B, AG8C, AG8D, AG8E, AG8F, AG8G, AG8H, AG8I, AG8J, AG31, AG32, AG32A, AG33, AG34, AG35, AG36, AG37, AG38, AG39, AG40, AG41, AG42, AG43, AG44, AG45, AG46, AG47, AG48, AG49, AG50, AG51, AG52, AG53, AG54 and AG55 are added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

52G. **Paragraph AG5 was amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.**

52H. **Paragraphs 28H and 52I were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments when it applies the *Interest Rate Benchmark Reform* amendments to IPSAS 29 or IPSAS 41.**

52I. In the reporting period in which an entity first applies *Interest Rate Benchmark Reform amendments*, an entity is not required to present the quantitative information required by paragraph 33(f) of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

52J. **Paragraphs 28I–28J and 52K were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments when it applies the *Interest Rate Benchmark Reform—Phase 2* amendments to IPSAS 29 or IPSAS 41.**

52K. In the reporting period in which an entity first applies *Interest Rate Benchmark Reform—Phase 2* amendments an entity is not required to present the quantitative information required by paragraph 33(f) of IPSAS 3.

52L. **Paragraphs 35 and AG16 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

52M. **Paragraphs 8 and 34 were amended, paragraphs 30A–30I were added, and paragraphs 31–33 were deleted by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

52N. **Paragraphs 5A, 42A, 42H, 42M, and 42N were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

52O. **Paragraphs 30A, and 30C(a)-30C(h) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

53. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal and Replacement of IPSAS 15 (2001)

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

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 30.

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

AG1. Paragraph 9 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 9 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IPSAS 41 (which determine how financial instruments are measured and where changes in fair value are recognized).

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

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

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

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

AG4. [Deleted]

Other Disclosure—Accounting Policies (paragraph 25)

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

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

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

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

(iii) How the entity has satisfied the conditions in paragraph 46, of IPSAS 41 for such designation.

(b) For financial assets designated as measured at fair value through surplus or deficit:

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

(ii) How the entity has satisfied the criteria in paragraph 44 of IPSAS 41 for such designation.

(c) Whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 11 of IPSAS 41).

(d) [Deleted]

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

(f) [Deleted]

(g) [Deleted]

(h) For financial guarantee contracts issued through a non-exchange transaction, where no fair value can be determined and on initial recognition the financial guarantee contract is measured at the amount of the loss allowance in accordance with paragraph AG136 of IPSAS 41, disclosure of the circumstances that result in fair value not being determinable.

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

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

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

Quantitative Disclosures (paragraph 41)

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

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

(a) A description of how management determines concentrations;

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

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

Credit Risk Management Practices (paragraphs 42F–42G)

AG8A. Paragraph 42F(b) requires the disclosure of information about how an entity has defined default for different financial instruments and the reasons for selecting those definitions. In accordance with paragraph 81 of IPSAS 41, the determination of whether lifetime expected credit losses should be recognized is based on the increase in the risk of a default occurring since initial recognition. Information about an entity's definitions of default that will assist users of financial statements in understanding how an entity has applied the expected credit loss requirements in IPSAS 41 may include:

(a) The qualitative and quantitative factors considered in defining default;

(b) Whether different definitions have been applied to different types of financial instruments; and

(c) Assumptions about the cure rate (i.e., the number of financial assets that return to a performing status) after a default occurred on the financial asset.

AG8B. To assist users of financial statements in evaluating an entity's restructuring and modification policies, paragraph 42F(f)(i) requires the disclosure of information about how an entity monitors the extent to which the loss allowance on financial assets previously disclosed in accordance with paragraph 42F(f)(i) are subsequently measured at an amount equal to lifetime expected credit losses in accordance with paragraph 75 of IPSAS 41. Quantitative information that will assist users in understanding the subsequent increase in credit risk of modified financial assets may include information about modified financial assets meeting the criteria in paragraph 42F(f)(i) for which the loss allowance has reverted to being measured at an amount equal to lifetime expected credit losses (i.e., a deterioration rate).

AG8C. Paragraph 42G(a) requires the disclosure of information about the basis of inputs and assumptions and the estimation techniques used to apply the impairment requirements in IPSAS 41. An entity's assumptions and inputs used to measure expected credit losses or determine the extent of increases in credit risk since initial recognition may include information obtained from internal historical information or rating reports and assumptions about the expected life of financial instruments and the timing of the sale of collateral.

Changes in the Loss Allowance (paragraph 42H)

AG8D. In accordance with paragraph 42H, an entity is required to explain the reasons for the changes in the loss allowance during the period. In addition to the reconciliation from the opening balance to the closing balance of the loss allowance, it may be necessary to provide a narrative explanation of the changes. This narrative explanation may include an analysis of the reasons for changes in the loss allowance during the period, including:

(a) The portfolio composition;

(b) The volume of financial instruments purchased or originated; and

(c) The severity of the expected credit losses

AG8E. For loan commitments and financial guarantee contracts the loss allowance is recognized as a provision. An entity should disclose information about the changes in the loss allowance for financial assets separately from those for loan commitments and financial guarantee contracts. However, if a financial instrument includes both a loan (i.e., financial asset) and an undrawn commitment (i.e., loan commitment) component and the entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognized together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognized as a provision.

Collateral (paragraph 42K)

AG8F. Paragraph 42K requires the disclosure of information that will enable users of financial statements to understand the effect of collateral and other credit enhancements on the amount of expected credit losses. An entity is neither required to disclose information about the fair value of collateral and other credit enhancements nor is it required to quantify the exact value of the collateral that was included in the calculation of expected credit losses (i.e., the loss given default).

AG8G. A narrative description of collateral and its effect on amounts of expected credit losses might include information about:

(a) The main types of collateral held as security and other credit enhancements (examples of the latter being guarantees, credit derivatives and netting agreements that do not qualify for offset in accordance with IPSAS 28);

(b) The volume of collateral held and other credit enhancements and its significance in terms of the loss allowance;

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

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

(e) Information about risk concentrations within the collateral and other credit enhancements.

Credit Risk Exposure (paragraphs 42M–42N)

AG8H. Paragraph 42M requires the disclosure of information about an entity's credit risk exposure and significant concentrations of credit risk at the reporting date. A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. An entity should provide information that enables users of financial statements to understand whether there are groups or portfolios of financial instruments with particular features that could affect a large portion of that group of financial instruments such as concentration to particular risks. This could include, for example, loan-to-value groupings, geographical, industry or issuer-type concentrations.

AG8I. The number of credit risk rating grades used to disclose the information in accordance with paragraph 42M shall be consistent with the number that the entity reports to key management personnel for credit risk management purposes. If past due information is the only borrower-specific information available and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 82 of IPSAS 41, an entity shall provide an analysis by past due status for those financial assets.

AG8J. When an entity has measured expected credit losses on a collective basis, the entity may not be able to allocate the gross carrying amount of individual financial assets or the exposure to credit risk on loan commitments and financial guarantee contracts to the credit risk rating grades for which lifetime expected credit losses are recognized. In that case, an entity should apply the requirement in paragraph 42M to those financial instruments that can be directly allocated to a credit risk rating grade and disclose separately the gross carrying amount of financial instruments for which lifetime expected credit losses have been measured on a collective basis.

Maximum Credit Risk Exposure (paragraph 43(a))

AG9. Paragraphs 42K(a) and 43(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:

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

(b) Any loss allowance recognized in accordance with IPSAS 41.

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

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

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

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

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

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

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

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

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

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

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

(a) Not later than one month;

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

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

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

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

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

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

(b) All loan commitments.

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

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

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

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

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

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

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

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

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

(e) Gross loan commitments.

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

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

AG18. Other factors that an entity might consider in providing the disclosure required in paragraph 46(c) include, but are not limited to, whether the entity:

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

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

(c) Has very diverse funding sources;

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

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

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

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

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

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

Market Risk—Sensitivity Analysis (paragraphs 47 and 48)

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

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

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

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

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

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

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

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

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

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

AG22. Paragraph 48 permits an entity to use a sensitivity analysis that reflects inter-dependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 48(a) by disclosing the type of value-at-risk model used (e.g., whether the model relies on Monte Carlo simulations), an explanation about how the model works and the

main assumptions (e.g., the holding period and confidence level). Entities might also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.

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

Interest Rate Risk

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

Currency Risk

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

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

Other Price Risk

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

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

AG29. In accordance with paragraph 47(a), the sensitivity of surplus or deficit (that arises, for example, from instruments measured at fair value through surplus or deficit) is disclosed separately from the sensitivity of net assets/equity (that arises, for example, from investments in equity instruments whose changes in fair value are presented in net assets/equity).

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

Derecognition (paragraphs 49C–49H)

Continuing Involvement (paragraph 49C)

AG31. The assessment of continuing involvement in a transferred financial asset for the purposes of the disclosure requirements in paragraphs 49E–49H is made at the level of the reporting entity. For example, if a controlled entity transfers to an unrelated third party a financial asset in which the controlling entity of the controlled entity has continuing involvement, the controlled entity does not include the controlling entity's involvement in the assessment of whether it has continuing involvement in the transferred asset in its separate or individual financial statements (i.e., when the controlled entity is the reporting entity). However, a controlling entity would include its

continuing involvement (or that of another member of the group) in a financial asset transferred by its controlling entity in determining whether it has continuing involvement in the transferred asset in its consolidated financial statements (i.e., when the reporting entity is the group).

AG32. An entity does not have a continuing involvement in a transferred financial asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. An entity does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future. The term 'payment' in this context does not include cash flows of the transferred financial asset that an entity collects and is required to remit to the transferee.

AG32A. When an entity transfers a financial asset, the entity may retain the right to service that financial asset for a fee that is included in, for example, a servicing contract. The entity assesses the servicing contract in accordance with the guidance in paragraphs 49C and AG32 to decide whether the entity has continuing involvement as a result of the servicing contract for the purposes of the disclosure requirements. For example, a servicer will have continuing involvement in the transferred financial asset for the purposes of the disclosure requirements if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset. Similarly, a servicer has continuing involvement for the purposes of the disclosure requirements if a fixed fee would not be paid in full because of non-performance of the transferred financial asset. In these examples, the servicer has an interest in the future performance of the transferred financial asset. This assessment is independent of whether the fee to be received is expected to compensate the entity adequately for performing the servicing.

AG33. Continuing involvement in a transferred financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

Transferred Financial Assets that are Not Derecognized in Their Entirety (paragraph 49D)

AG34. Paragraph 49D requires disclosures when part or all of the transferred financial assets do not qualify for derecognition. Those disclosures are required at each reporting date at which the entity continues to recognize the transferred financial assets, regardless of when the transfers occurred.

Types of Continuing Involvement (paragraphs 49E–49H)

AG35. Paragraphs 49E–49H require qualitative and quantitative disclosures for each type of continuing involvement in derecognized financial assets. An entity shall aggregate its continuing involvement into types that are representative of the entity's exposure to risks. For example, an entity may aggregate its continuing involvement by type of financial instrument (e.g., guarantees or call options) or by type of transfer (e.g., factoring of receivables, securitizations and securities lending).

Maturity Analysis for Undiscounted Cash Outflows to Repurchase Transferred Assets (paragraph 49E(e))

AG36. Paragraph 49E(e) requires an entity to disclose a maturity analysis of the undiscounted cash outflows to repurchase derecognized financial assets or other amounts payable to the transferee in respect of the derecognized financial assets, showing the remaining contractual maturities of the entity's continuing involvement. This analysis distinguishes cash flows that are required to be paid (e.g., forward contracts), cash flows that the entity may be required to pay (e.g., written put options) and cash flows that the entity might choose to pay (e.g., purchased call options).

AG37. An entity shall use its judgment to determine an appropriate number of time bands in preparing the maturity analysis required by paragraph 49E(e). For example, an entity might determine that the following maturity time bands are appropriate:

(a) Not later than one month;

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

(c) Later than three months and not later than six months;

(d) Later than six months and not later than one year;

(e) Later than one year and not later than three years;

(f) Later than three years and not later than five years; and

(g) More than five years.

AG38. If there is a range of possible maturities, the cash flows are included on the basis of the earliest date on which the entity can be required or is permitted to pay.

Qualitative Information (paragraph 49E(f))

AG39. The qualitative information required by paragraph 49E(f) includes a description of the derecognized financial assets and the nature and purpose of the continuing involvement retained after transferring those assets. It also includes a description of the risks to which an entity is exposed, including:

(a) A description of how the entity manages the risk inherent in its continuing involvement in the derecognized financial assets.

(b) Whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by parties whose interests rank lower than the entity's interest in the asset (i.e., its continuing involvement in the asset).

(c) A description of any triggers associated with obligations to provide financial support or to repurchase a transferred financial asset.

Gain or Loss on Derecognition (paragraph 49G(a))

AG40. Paragraph 49G(a) requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognized asset (i.e., the interest in the asset derecognized and the interest retained by the entity) were different from the fair value of the previously recognized asset as a whole. In that situation, the entity shall also disclose whether the fair value measurements included significant inputs that were not based on observable market data, as described in paragraph 32.

Supplementary Information (paragraph 49H)

AG41. The disclosures required in paragraphs 49D–49G may not be sufficient to meet the disclosure objectives in paragraph 49B. If this is the case, the entity shall disclose whatever additional information is necessary to meet the disclosure objectives. The entity shall decide, in the light of its circumstances, how much additional information it needs to provide to satisfy the information needs of users and how much emphasis it places on different aspects of the additional information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

Offsetting Financial Assets and Financial Liabilities (paragraphs 17A–17F)

Scope (paragraph 17A)

AG42. The disclosures in paragraphs 17B–17E are required for all recognized financial instruments that are set off in accordance with paragraph 47 of IPSAS 28. In addition, financial instruments are within the scope of the disclosure requirements in paragraphs 17B–17E if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with paragraph 47 of IPSAS 28.

AG43. The similar agreements referred to in paragraphs 17A and AG42 include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to in paragraph AG31 include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements. Examples of financial instruments that are not within the scope of paragraph 17A are loans and customer deposits at the same institution (unless they are set off in the statement of financial position), and financial instruments that are subject only to a collateral agreement.

Disclosure of Quantitative Information for Recognized Financial Assets and Recognized Financial Liabilities within the Scope of Paragraph 17A (paragraph 17C)

AG44. Financial instruments disclosed in accordance with paragraph 17C may be subject to different measurement requirements (for example, a payable related to a repurchase agreement may be measured at amortized cost, while a derivative will be measured at fair value). An entity shall include instruments at their recognized amounts and describe any resulting measurement differences in the related disclosures.

Disclosure of the Gross Amounts of Recognized Financial Assets and Recognized Financial Liabilities within the Scope of Paragraph 17A (paragraph 17C(a))

AG45. The amounts required by paragraph 17C(a) relate to recognized financial instruments that are set off in accordance with paragraph 47 of IPSAS 28. The amounts required by paragraph 17C(a) also relate to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting criteria. However, the disclosures required by paragraph 17C(a) do not relate to any amounts recognized as a result of collateral agreements that do not meet the offsetting criteria in paragraph 47 of IPSAS 28. Instead, such amounts are required to be disclosed in accordance with paragraph 17C(d).

Disclosure of the Amounts that are Set Off in Accordance with the Criteria in Paragraph 47 of IPSAS 28 (paragraph 17C(b))

AG46. Paragraph 17C(b) requires that entities disclose the amounts set off in accordance with paragraph 47 of IPSAS 28 when determining the net amounts presented in the statement of financial position. The amounts of both the recognized financial assets and the recognized financial liabilities that are subject to set-off under the same arrangement will be disclosed in both the financial asset and financial liability disclosures. However, the amounts disclosed (in, for example, a table) are limited to the amounts that are subject to set-off. For example, an entity may have a recognized derivative asset and a recognized derivative liability that meet the offsetting criteria in paragraph 47 of IPSAS 28. If the gross amount of the derivative asset is larger than the gross amount of the derivative liability, the financial asset disclosure table will include the entire amount of the derivative asset (in accordance with paragraph 17C(a)) and the entire amount of the derivative liability (in accordance with paragraph 17C(b)). However, while the financial liability disclosure table will include the entire amount of the derivative liability (in accordance with paragraph 17C(a)), it will only include the amount of the derivative asset (in accordance with paragraph 17(b)) that is equal to the amount of the derivative liability.

Disclosure of the Net Amounts Presented in the Statement of Financial Position (paragraph 17C(c))

AG47. If an entity has instruments that meet the scope of these disclosures (as specified in paragraph 17A), but that do not meet the offsetting criteria in paragraph 47 of IPSAS 28, the amounts required to be disclosed by paragraph 17C(c) would equal the amounts required to be disclosed by paragraph 17C(a).

AG48. The amounts required to be disclosed by paragraph 17C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information, it must reconcile the aggregated or disaggregated amounts disclosed in paragraph 17C(c) back to the individual line item amounts presented in the statement of financial position.

Disclosure of the Amounts Subject to an Enforceable Master Netting Arrangement or Similar Agreement that are not Otherwise Included in Paragraph 17C(b) (paragraph 17C(d))

AG49. Paragraph 17C(d) requires that entities disclose amounts that are subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 17C(b). Paragraph 17C(d)(i) refers to amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in paragraph 47 of IPSAS 28 (for example, current rights of set-off that do not meet the criterion in paragraph 47(b) of IPSAS 28, or conditional rights of set-off that are enforceable and exercisable only in the event of default, or only in the event of insolvency or bankruptcy of any of the counterparties).

AG50. Paragraph 17C(d)(ii) refers to amounts related to financial collateral, including cash collateral, both received and pledged. An entity shall disclose the fair value of those financial instruments that have been pledged or received as collateral. The amounts disclosed in accordance with paragraph 17C(d)(ii) should relate to the actual collateral received or pledged and not to any resulting payables or receivables recognized to return or receive back such collateral.

Limits on the Amounts Disclosed in Paragraph 17C(d) (paragraph 17D)

AG51. When disclosing amounts in accordance with paragraph 17C(d), an entity must take into account the effects of over-collateralization by financial instrument. To do so, the entity must first deduct the amounts disclosed in accordance with paragraph 17C(d)(i) from the amount disclosed in accordance with paragraph 17C(c). The entity shall then limit the amounts disclosed in accordance with paragraph 17C(d)(ii) to the remaining amount in paragraph 17C(c) for the related financial instrument. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 17D.

Description of the Rights of Set-Off Subject to Enforceable Master Netting Arrangements and Similar Agreements (paragraph 17E)

AG52. An entity shall describe the types of rights of set-off and similar arrangements disclosed in accordance with paragraph 17C(d), including the nature of those rights. For example, an entity shall describe its conditional rights. For instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in paragraph 47 of IPSAS 28, the entity shall describe the reason(s) why the criteria are not met. For any financial collateral received or pledged, the entity shall describe the terms of the collateral agreement (for example, when the collateral is restricted).

Disclosure by Type of Financial Instrument or by Counterparty

AG53. The quantitative disclosures required by paragraph 17C(a)–(e) may be grouped by type of financial instrument or transaction (for example, derivatives, repurchase and reverse repurchase agreements or securities borrowing and securities lending agreements).

AG54. Alternatively, an entity may group the quantitative disclosures required by paragraph 17C(a)–(c) by type of financial instrument, and the quantitative disclosures required by paragraph 17C(c)–(e) by counterparty. If an entity provides the required information by counterparty, the entity is not required to identify the counterparties by name. However, designation of counterparties (Counterparty A, Counterparty B, Counterparty C, etc.) shall remain consistent from year to year for the years presented to maintain comparability. Qualitative disclosures shall be considered so that further information can be given about the types of counterparties. When disclosure of the amounts in paragraph 17C(c)–(e) is provided by counterparty, amounts that are individually significant in terms of total counterparty amounts shall be separately disclosed and the remaining individually insignificant counterparty amounts shall be aggregated into one line item.

Other

AG55. The specific disclosures required by paragraphs 17C–17E are minimum requirements. To meet the objective in paragraph 17B an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity's financial position.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

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

Introduction

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

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

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

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

Concessionary Loans

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

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

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

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

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

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

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

Revision of IPSAS 30 as a result of *Improvements to IPSAS, 2019*

BC7. The amendments to paragraph AG5 update the guidance on accounting for financial guarantee contracts resulting from IPSAS 41, *Financial Instruments* which were inadvertently omitted when IPSAS 41 was issued. The IPSASB agreed to include these minor amendments in *Improvements to IPSAS, 2019*.

Revision of IPSAS 30 as a result of *COVID-19: Deferral of Effective Dates*

BC8. The IPSASB published *Improvements to IPSAS, 2019* in January 2020, which included amendments to IPSAS 30, *Financial Instruments: Disclosures*. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC9. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC10. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC11. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 30 as a result of *Improvements to IPSAS, 2021*

BC12. The IPSASB reviewed the revisions to IFRS 7, *Financial Instruments: Disclosures*, included in *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) issued by the IASB in September 2019, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform*.

BC13. The IPSASB reviewed the revisions to IFRS 7, *Financial Instruments*, included in *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform—Phase 2.*

Revision of IPSAS 30 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC14. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46*, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC15. In August 2024, the IPSASB published ED 90, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC16. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the

asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of ‘recurring’ in paragraphs that do not stipulate ‘in the statement of financial position after initial recognition’ could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC17. In responding to constituents’ comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

IMPLEMENTATION GUIDANCE

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Implementation Guidance

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

Introduction

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

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

IG3. [Deleted]

IG4. [Deleted]

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

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

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

Significance of Financial Instruments for Financial Position and Financial Performance (paragraphs 10–36, AG4 and AG5)[1]

IG7. [Deleted]

IG8. [Deleted]

IG9. [Deleted]

IG10. [Deleted]

IG11. [Deleted]

Defaults and Breaches (paragraphs 22 and 23)

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

Total Interest Expense (paragraph 24(b))

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

[1] IPSAS 41, *Financial Instruments* deleted paragraph AG4 of IPSAS 30.

Hedge Accounting (paragraphs 28A–28C)

IG13A. Paragraph 28A of IPSAS 30 requires that an entity discloses amounts related to items designated as hedging instruments in a tabular format. The following example illustrates how that information might be disclosed.

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20X1
		Assets	Liabilities		
Cash flow hedges					
Commodity price risk					
- Forward sales contracts	xx	xx	xx	Line item XX	xx
Fair value hedges					
Interest rate risk					
- Interest rate swaps	xx	xx	xx	Line item XX	xx
Foreign exchange risk					
- Foreign currency loan	xx	xx	xx	Line item XX	xx

IG13B. Paragraph 28B of IPSAS 30 requires that an entity discloses amounts related to items designated as hedged items in a tabular format. The following example illustrates how that information might be disclosed.

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffective-ness for 20X1	Cash flow hedge reserve
	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Commodity price risk							
- Forecast sales	n/a	n/a	n/a	n/a	n/a	xx	xx
- Discontinued hedges (forecast sales)	n/a	n/a	n/a	n/a	n/a	n/a	xx
Fair value hedges							
Interest rate risk							
- Loan payable					Line item XX		
- Discontinued hedges (Loan payable)	–	xx	–	xx	Line item XX	xx n/a	n/a n/a
Foreign exchange risk							
- Firm commitment	xx	xx	xx	xx	Line item XX	xx	n/a

IG13C. Paragraph 28C of IPSAS 30 requires that an entity disclose amounts that have affected the statement of financial performance as a result of applying hedge accounting in a tabular format. The following example illustrates how that information might be disclosed.

Cash flow hedges[(a)]	**Separate line item recognized in surplus or deficit as a result of a hedge of a net position[(b)]**	**Change in the value of the hedging instrument recognized in net assets/equity**	**Hedge ineffectiveness recognized in surplus or deficit**	**Line item in surplus or deficit (that includes hedge ineffective-ness)**	**Amount reclassified from the cash flow hedge reserve to surplus or deficit**	**Line item affected in surplus or deficit because of the reclassification**
Commodity price risk						Line item XX
Commodity X	n/a	xx	xx	Line item XX	xx	Line item
- Discontinued hedge	n/a	n/a	n/a	n/a	xx	XX

(a) The information disclosed in the statement of changes in net assets/equity (cash flow hedge reserve) should have the same level of detail as these disclosures.

(b) This disclosure only applies to cash flow hedges of foreign currency risk.

Fair value hedges	**Ineffectiveness recognized in surplus or deficit**	**Line item(s) in surplus or deficit (that include(s) hedge ineffectiveness)**
Interest rate risk	xx	Line item XX
Foreign exchange risk	xx	Line item XX

Fair Value (paragraphs 31–34)

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

Assets Measured at Fair Value

		Fair value measurement at end of the reporting period using:		
		Level 1	**Level 2**	**Level 3**
Description	**Dec 31, 20X2**	**CU million**	**CU million**	**CU million**
Financial assets at fair value through surplus or deficit				
Trading securities	100	40	55	5
Trading derivatives	39	17	20	2

Financial assets at fair value through net assets/equity				
Equity investments	75	30	40	5
Total	214	87	115	12

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

IG15. IPSAS 30 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a measurement technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 33(b). (Disclosure of comparative information is also required, but is not included in the following example).

Assets Measured at Fair Value Based on Level 3

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

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

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

Revenue

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

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

IG16. The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph AG151 of IPSAS 41. However, when, after initial recognition, an entity will use a measurement technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that measurement technique. In these circumstances, the difference will be recognized in surplus or deficit in subsequent periods in accordance with IPSAS 41 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph AG151 of IPSAS 41). An entity might disclose the following to comply with paragraph 34:

Background

On January 1, 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a measurement technique to establish the financial assets' fair value. This measurement technique includes variables other than data from observable markets.

At initial recognition, the same measurement technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at January 1, 20X1.

Application of Requirements

The entity's 20X2 disclosure would include the following:

Accounting Policies

The entity uses the following measurement technique to measure the fair value of financial instruments that are not traded in an active market: [description of technique not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IPSAS 41, is generally the transaction price) and the amount determined at initial recognition using the measurement technique. Any such differences are [description of the entity's accounting policy].

In the Notes to the Financial Statements

As discussed in note X, the entity uses [name of measurement technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IPSAS 41, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the measurement technique, that difference is [description of the entity's accounting policy].

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

	Dec 31, X2	**Dec 31, X1**
	CU million	CU million
Balance at beginning of year	5.3	5.0

Background		
New transactions	–	1.0
Amounts recognized in surplus or deficit during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	4.5	5.3

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

Qualitative Disclosures (paragraph 40)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk (paragraphs 42A–43, AG8A–AG10)

IG22A. The following examples illustrate possible ways in which an entity might provide the disclosures required by paragraphs 42A–42N of IPSAS 30. However, these illustrations do not address all possible ways of applying the disclosure requirements.

Illustrating the Application of Paragraphs 42H and 42I

IG22B. The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance as required by paragraphs 42H–42I. This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.

Mortgage loans–loss allowance	**12-month expected credit losses**	**Lifetime expected credit losses (collectively assessed)**	**Lifetime expected credit losses (individually assessed)**	**Credit-impaired financial assets (lifetime expected credit losses)**
CU'000				
Loss allowance as at January 1	**X**	**X**	**X**	**X**
Changes due to financial instruments recognized as at January 1:				

Mortgage loans–loss allowance	12-month expected credit losses	Lifetime expected credit losses (collectively assessed)	Lifetime expected credit losses (individually assessed)	Credit-impaired financial assets (lifetime expected credit losses)
- Transfer to lifetime expected credit losses	(X)	X	X	–
- Transfer to credit-impaired financial assets	(X)	–	(X)	X
- Transfer to 12-month expected credit losses	X	(X)	(X)	–
- Financial assets that have been derecognized during the period	(X)	(X)	(X)	(X)
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Changes in models/risk parameters	X	X	X	X
Foreign exchange and other movements	X	X	X	X
Loss allowance as at December 31	**X**	**X**	**X**	**X**

Significant changes in the gross carrying amount of mortgage loans that contributed to changes in the loss allowance were:

- The acquisition of Region Y's prime mortgage portfolio increased the residential mortgage book by x percent, with a corresponding increase in the loss allowance measured on a 12-month basis.
- The write off of the CUXX Region Z's mortgage portfolio following the collapse of the local market in the region reduced the loss allowance for financial assets with objective evidence of impairment by CUX.
- The expected increase in unemployment in Region X caused a net increase in financial assets whose loss allowance is equal to lifetime expected credit losses and caused a net increase of CUX in the lifetime expected credit losses allowance.

The significant changes in the gross carrying amount of mortgage loans are further explained below:

Mortgage loans–gross carrying amount	12-month expected credit losses	Lifetime expected credit losses (collectively assessed)	Lifetime expected credit losses (individually assessed)	Credit-impaired financial assets (lifetime expected credit losses)
CU'000				

Mortgage loans–gross carrying amount	12-month expected credit losses	Lifetime expected credit losses (collectively assessed)	Lifetime expected credit losses (individually assessed)	Credit-impaired financial assets (lifetime expected credit losses)
Gross carrying amount as at January 1	**X**	**X**	**X**	**X**
Individual financial assets transferred to lifetime expected credit losses	(X)	–	X	–
Individual financial assets transferred to credit-impaired financial assets	(X)	–	(X)	X
Individual financial assets transferred from credit-impaired financial assets	X	–	X	(X)
Financial assets assessed on collective basis	(X)	X	–	–
New financial assets originated or purchased	X	–	–	–
Write-offs	–	–	(X)	(X)
Financial assets that have been derecognized	(X)	(X)	(X)	(X)
Changes due to modifications that did not result in derecognition	(X)	–	(X)	(X)
Other changes	X	X	X	X
Gross carrying amount as at December 31	**X**	**X**	**X**	**X**

Illustrating the Application of Paragraphs 42M and 42N

IG22C. The following example illustrates some ways of providing information about an entity's credit risk exposure and significant credit risk concentrations in accordance with paragraph 42M of IPSAS 30. The number of grades used to disclose the information in accordance with paragraph 42M of IPSAS 30 shall be consistent with the number that the entity uses to report internally to key management personnel for internal credit risk management purposes. However, if information about credit risk rating grades is not available without undue cost or effort and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 83 of IPSAS 41, the entity shall provide an analysis by past due status for those financial assets.

Loan credit risk exposure by internal rating grades

20XX	Mortgage Loans	Agriculture Loans

Loan credit risk exposure by internal rating grades

CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	**12-month**	**Lifetime**	**12-month**
Internal Grade 1–2	x	x	x	x
Internal Grade 3–4	x	x	x	x
Internal Grade 5–6	x	x	x	x
Internal Grade 7	x	x	x	x
Total	**x**	**x**	**x**	**x**

Loan credit risk profile by external rating grades

20XX	Mortgage Loans		Agriculture Loans	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	**12-month**	**Lifetime**	**12-month**
AAA-AA	x	x	x	x
A	x	x	x	x
BBB-BB	x	x	x	x
B	x	x	x	x
CCC-CC	x	x	x	x
C	x	x	x	x
D	x	x	x	x
Total	**x**	**x**	**x**	**x**

Loan risk profile by probability of default

20XX	Mortgage Loans		Agriculture Loans	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	**12-month**	**Lifetime**	**12-month**
0.00 – 0.10	X	X	X	X
0.11 – 0.40	X	X	X	X
0.41 – 1.00	X	X	X	X
1.01 – 3.00	X	X	X	X
3.01 – 6.00	X	X	X	X

Loan credit risk exposure by internal rating grades				
6.01 – 11.00	X	X	X	X
11.01 – 17.00	X	X	X	X
17.01 – 25.00	X	X	X	X
25.01 – 50.00	X	X	X	X
50.01+	X	X	X	X
Total	**X**	**X**	**X**	**X**

IG22D. The Department of Agriculture provides short-term financing to both small-scale and large-scale farmers. The purpose of the financing is to purchase inputs such as fertilizers, seeds and pesticides. The Department of Agriculture discloses its small-scale farmers financing and large-scale farmers financing as separate classes of financial instruments and applies the simplified approach to its trade receivables so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:

20XX CU'000	**Trade receivables days past due**				
Small-scale farmers financing	**Current**	**More than 30 days**	**More than 60 days**	**More than 90 days**	**Total**
Expected credit loss rate	0.10%	2%	5%	13%	
Estimated total gross carrying amount at default	CU20,777	CU1,416	CU673	CU235	CU23,101
Lifetime expected credit losses—small-scale farmers financing	CU21	CU28	CU34	CU31	CU114
Large-scale farmers financing					
Expected credit loss rate	0.20%	3%	8%	15%	
Estimated total gross carrying amount at default	CU19,222	CU2,010	CU301	CU154	CU21,687
Lifetime expected credit losses—large-scale farmers financing	CU38	CU60	CU24	CU23	CU145

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

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

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

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

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

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

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

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

IG25. [Deleted]

IG26. [Deleted]

IG27. [Deleted]

IG28. [Deleted]

IG29. [Deleted]

IG30. [Deleted]

IG31. [Deleted]

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

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

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

(b) Foreign exchange rates.

(c) Prices of equity instruments.

(d) Market prices of commodities.

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

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

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

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

(a) Interest revenue and expense;

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

(c) When applicable, net assets/equity.

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

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

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

Interest Rate Risk

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

Foreign Currency Exchange Rate Risk

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

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

Other Market Risk Disclosures (paragraph 49)

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

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

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

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

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

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

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

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

For example, an entity may acquire a zero cost interest rate collar that includes an out-of-the-money leveraged written option (e.g., the entity pays ten times the amount of the difference between a specified interest rate floor and the current market interest rate). The entity may regard the collar as an inexpensive economic hedge against a reasonably possible increase in interest rates. However, an unexpectedly large decrease in interest rates might

trigger payments under the written option that, because of the leverage, might be significantly larger than the benefit of lower interest rates. Neither the fair value of the collar nor a sensitivity analysis based on reasonably possible changes in market variables would indicate this exposure. In this case, the entity might provide the additional information described above.

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

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

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

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

(c) The effect on surplus or deficit; and

(d) How the entity hedges the risk.

Derecognition (paragraphs 49D and 49E)

IG41. The following examples illustrate some possible ways to meet the quantitative disclosure requirements in paragraphs 49D and 49E.

IG42. The following examples illustrate how an entity that has adopted IPSAS 41 might meet the quantitative disclosure requirements in paragraphs 49D and 49E.

Transferred financial assets that are not derecognized in their entirety

Illustrating the application of paragraph 49D(d) and (e)

	Financial assets at fair value through surplus or deficit		**Financial assets at amortized cost**		**Financial assets at fair value through net assets/equity**
	CU million		CU million		CU million
	Trading assets	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognized in their entirety

Illustrating the application of paragraph 49E(a)–(d)

	Cash outflows to repurchase transferred (derecognized) assets	**Carrying amount of continuing involvement in statement of financial position**			**Fair value of continuing involvement**		**Maximum exposure to loss**
	CU million	CU million			CU million		CU million
Type of continuing involvement		**Financial assets at fair value through surplus or deficit**	**Financial assets at fair value through net assets/equity**	**Financial liabilities at fair value through surplus or deficit**	**Assets**	**Liabilities**	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)			(X)	X	(X)	X
Total		X		(X)	X	(X)	X

Illustrating the Application of Paragraph 49E(e)

Undiscounted cash flows to repurchase transferred assets								
	Maturity of continuing involvement CU million							
Type of continuing involvement	Total	less than 1 month	1–3 months	3–6 months	6 months – 1 year	1–3 years	3–5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

IG43. The following examples illustrate how an entity that has not adopted IPSAS 41 might meet the quantitative disclosure requirements in paragraphs 49D and 49E.

Transferred financial assets that are not derecognized in their entirety

Illustrating the application of paragraph 49D(d) and (e)

	Financial assets at fair value through surplus or deficit		**Loans and receivables**		**Available-for-sale financial assets**
	CU million		CU million		CU million
	Trading securities	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognized in their entirety

Illustrating the application of paragraph 49E(a)–(d)

	Cash outflows to repurchase transferred (derecognized) assets	**Carrying amount of continuing involvement in statement of financial position**			**Fair value of continuing involvement**		**Maximum exposure to loss**
	CU million	**CU million**			**CU million**		**CU million**
Type of continuing involvement		**Held for trading**	**Available-for-sale financial assets**	**Financial liabilities at fair value through surplus or deficit**	**Assets**	**Liabilities**	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)		X	(X)	X	(X)	X
Total		X	X	(X)	X	(X)	X

Illustrating the application of paragraph 49E(e)

Undiscounted cash flows to repurchase transferred assets								
	Maturity of continuing involvement CU million							
Type of continuing involvement	Total	less than 1 month	1–3 months	3–6 months	6 months –1 year	1–3 years	3–5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

Disclosures (paragraphs 17A–17F and AG42–55)

IG44. The following examples illustrate ways in which an entity might provide the quantitative disclosures required by paragraph 17C. However, these illustrations do not address all possible ways of applying the disclosure requirements as set out in paragraphs 17B–17E.

Background

An entity has entered into transactions subject to an enforceable master netting arrangement or similar agreement with the following counterparties. The entity has the following recognized financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 17A.

Counterparty A:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty A that meet the offsetting criteria in paragraph 47 of IPSAS 28. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative asset of CU20 million in the entity's statement of financial position. Cash collateral has also been received from Counterparty A for a portion of the net derivative asset (CU10 million). The cash collateral of CU10 million does not meet the offsetting criteria in paragraph 47 of IPSAS 28, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty B:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty B that do not meet the offsetting criteria in paragraph 47 of IPSAS 28, but which the entity has the right to set off in the case of default and insolvency or bankruptcy. Consequently, the gross amount of the derivative asset (CU100 million) and the gross amount of the derivative liability (CU80 million) are presented separately in the entity's statement of financial position. Cash collateral has also been received from Counterparty B for the net amount of the derivative asset and derivative liability (CU20 million). The cash collateral of CU20 million does not meet the offsetting criteria in paragraph 47 of IPSAS 28, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty C:

The entity has entered into a sale and repurchase agreement with Counterparty C that is accounted for as a collateralized borrowing. The carrying amount of the financial assets (bonds) used as collateral and posted by the entity for the transaction is CU79 million and their fair value is CU85 million. The carrying amount of the collateralized borrowing (repo payable) is CU80 million.

The entity has also entered into a reverse sale and repurchase agreement with Counterparty C that is accounted for as a collateralized lending. The fair value of the financial assets (bonds) received as collateral (and not recognized in the entity's statement of financial position) is CU105 million. The carrying amount of the collateralized lending (reverse repo receivable) is CU90 million.

The transactions are subject to a global master repurchase agreement with a right of set-off only in default and insolvency or bankruptcy and therefore do not meet the offsetting criteria in paragraph 47 of IPSAS 28. Consequently, the related repo payable and repo receivable are presented separately in the entity's statement of financial position.

Illustrating the Application of Paragraph 17C(a)–(e) by Type of Financial Instrument

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**	**(d)**		**(e)= (c)-(d)**
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognized financial assets	**Gross amounts of recognized financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Description						
Derivatives	200	(80)	120	(80)	(30)	10
Reverse repurchase, securities borrowing and similar agreements	90	–	90	(90)	–	–
Other financial instruments	–	–	–	–	–	–
Total	290	(80)	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	**(a)**	**(b)**	**(c)=(a)-(b)**	**(d)**	**(e)= (c)-(d)**
				Related amounts not set off in the statement of financial position	

	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral received	Net amount
Description						
Derivatives	160	(80)	80	(80)	–	–
Repurchase, securities lending and similar agreements	80	–	80	(80)	–	–
Other financial instruments	–	–	–	–	–	–
Total	240	(80)	160	(160)	–	–

Illustrating the Application of Paragraph 17C(a)–(c) by Type of Financial Instrument and Paragraph 17C(c)–(e) by Counterparty

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	(a)	(b)	(c)=(a)-(b)
	Gross amounts of recognized financial assets	**Gross amounts of recognized financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**
Description			
Derivatives	200	(80)	120
Reverse repurchase, securities borrowing and similar agreements	90	–	90
Other financial instruments	–	–	–
Total	290	(80)	210

Net financial assets subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at December 31, 20XX	(c)	(d)		(e)=(c)-(d)
		Related amounts not set off in the statement of financial position		
	Net amounts of financial assets presented in the statement of financial position	(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral received	Net amount
Counterparty A	20	–	(10)	10
Counterparty B	100	(80)	(20)	–
Counterparty C	90	(90)	–	–
Other	–	–	–	–
Total	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at December 31, 20XX	(a)	(b)	(c)=(a)-(b)
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position
Description			
Derivatives	160	(80)	80
Repurchase, securities lending and similar agreements	80	–	80
Other financial instruments	–	–	–
Total	240	(80)	160

Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at December 31, 20XX	(c)	(d)		(e)=(c)-(d)
		Related amounts not set off in the statement of financial position		
	Net amounts of financial liabilities presented in the statement of financial position	(d)(i), (d)(ii) Financial instruments	(d)(ii) Cash collateral received	Net amount
Counterparty A	–	–	–	–

Counterparty B	80	(80)	–	–
Counterparty C	80	(80)	–	–
Other	–	–	–	–
Total	160	(160)	–	–

Transition from IPSAS 29 to IPSAS 41 (paragraphs 49K–49O)

IG45. The following illustration is an example of one possible way to meet the quantitative disclosure requirements in paragraphs 49K–49O of IPSAS 30 at the date of initial application of IPSAS 41. However, this illustration does not address all possible ways of applying the disclosure requirements of this Standard.

Reconciliation of statement of financial position balances from IPSAS 29 to IPSAS 41 at January 1, 2022

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	**(v) = (iii)**
	IPSAS 29 carrying amount December 31, 2021 (1)	**Reclassifi-cations**	**Remeasu-rements**	**IPSAS 41 carrying amount January 1, 2022**	**Accumulated surplus or deficit effect on January 1, 2022 (2), (3)**
Fair value through surplus or deficit					
Additions:					
From available for sale (IPSAS 29)	(a)			(c)	
From amortized cost (IPSAS 29) – required reclassification	(b)				
From amortized cost (IPSAS 29) – fair value option elected at January 1, 2022					
Subtractions:					
To amortized cost (IPSAS 41)					
To fair value through net assets/equity – debt instruments (IPSAS 41)					
To fair value through net assets/equity – equity instruments (IPSAS 41)					
Total change to fair value through surplus or deficit					
Fair value through net assets/equity					
Additions – debt instruments:					
From available for sale (IPSAS 29)				(g)	
From amortized cost (IPSAS 29)				(h)	
From fair value through surplus or deficit (IPSAS 29) – required				(i)	

Reconciliation of statement of financial position balances from IPSAS 29 to IPSAS 41 at January 1, 2022

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	**(v) = (iii)**
	IPSAS 29 carrying amount December 31, 2021 (1)	**Reclassifi-cations**	**Remeasu-rements**	**IPSAS 41 carrying amount January 1, 2022**	**Accumulated surplus or deficit effect on January 1, 2022 (2), (3)**
reclassification based on classification criteria					
From fair value through surplus or deficit (fair value option under IPSAS 29) – fair value option criteria not met at January 1, 2022				(j)	
From fair value through surplus or deficit (IPSAS 29) – fair value option revoked at January 1, 2022 by choice				(k)	
Additions – equity instruments:					
From available-for-sale (IPSAS 29)					
From fair value through surplus or deficit (fair value option under IPSAS 29)–fair value through net assets/equity elected at January 1, 2022					
From cost (IPSAS 29)					
Subtractions – debt and equity instruments:					
Available for sale (IPSAS 29) to fair value through surplus or deficit (IPSAS 41) – required reclassification based on classification criteria				(d)	
Available for sale (IPSAS 29) to fair value through surplus or deficit (IPSAS 41) – fair value option elected at January 1, 2022					
Available for sale (IPSAS 29) to amortized cost (IPSAS 41)				(e)	
Total change to fair value through net assets/equity					
Amortized cost					
Additions:					
From available for sale (IPSAS 29)				(f)	

Reconciliation of statement of financial position balances from IPSAS 29 to IPSAS 41 at January 1, 2022

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	**(v) = (iii)**
	IPSAS 29 carrying amount December 31, 2021 (1)	**Reclassifi-cations**	**Remeasu-rements**	**IPSAS 41 carrying amount January 1, 2022**	**Accumulated surplus or deficit effect on January 1, 2022 (2), (3)**
From fair value through surplus or deficit (IPSAS 29) – required reclassification					
From fair value through surplus or deficit (fair value option under IPSAS 29) – fair value option criteria not met at January 1, 2022					
From fair value through surplus or deficit (IPSAS 29) – fair value option revoked at January 1, 2022 by choice					
Subtractions:					
To fair value through net assets/equity (IPSAS 41)				(l)	
To fair value through surplus or deficit (IPSAS 41) – required reclassification based on classification criteria					
To fair value through surplus or deficit (IPSAS 41)–fair value option elected at January 1, 2022					
Total change to amortized cost					
Total financial asset balances, reclassifications and remeasure-ments at January 1, 2022	**(i)**	**Total (ii) = 0**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	

1 Includes the effect of reclassifying hybrid instruments that were bifurcated under IPSAS 29 with host contract components of (a), which had associated embedded derivatives with a fair value of X at December 31, 2021, and (b), which had associated embedded derivatives with a fair value of Y at December 31, 2021.

2 Includes (c), (d), (e) and (f), which are amounts reclassified from net assets/equity to accumulated surplus or deficit at the date of initial application.

3 Includes (g), (h), (i), (j), (k) and (l), which are amounts reclassified from accumulated surplus or deficit to net assets/equity at the date of initial application.

COMPARISON WITH IFRS 7

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

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

IPSAS 31, *INTANGIBLE ASSETS*

Acknowledgment

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

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IPSAS 31, *INTANGIBLE ASSETS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

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

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

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 50, *Exploration for and Evaluation of Mineral Resources* (issued November 2024)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2014* (issued January 2015)
- IPSAS 32, *Service Concession Arrangements: Grantor* (issued October 2011)
- *Improvements to IPSAS 2011* (issued October 2011)

Table of Amended Paragraphs in IPSAS 31

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
3	Amended	*Improvements to IPSAS* April 2016 IPSAS 40 January 2017 IPSAS 45 May 2023

Paragraph Affected	How Affected	Affected By
		IPSAS 50 November 2024
3(k)	Deleted	IPSAS 45 May 2023
4	Deleted	*The Applicability of IPSAS* April 2016
5	Deleted	*The Applicability of IPSAS* April 2016
6	Amended	IPSAS 32 October 2011 IPSAS 35 January 2015 IPSAS 37 January 2015 IPSAS 39 July 2016 IPSAS 40 January 2017 IPSAS 43 January 2022 IPSAS 44 May 2022 IPSAS 47 May 2023
7	Amended	IPSAS 45 May 2023
9	Amended	IPSAS 43 January 2022
11	Deleted	IPSAS 45 May 2023
15	Amended	IPSAS 45 May 2023
18	Amended	IPSAS 40 January 2017
18A	New	IPSAS 40 January 2017
24	Amended	IPSAS 40 January 2017
26	Amended	IPSAS 47 May 2023
26A	New	IPSAS 40 January 2017
28	Amended	*Improvements to IPSAS* April 2016
35	Amended	IPSAS 39 July 2016
39A	New	IPSAS 40 January 2017
39B	New	IPSAS 40 January 2017
39C	New	IPSAS 40 January 2017
39D	New	IPSAS 40 January 2017
39E	New	IPSAS 40 January 2017
40	Amended	IPSAS 40 January 2017
41	Amended	IPSAS 40 January 2017
45	Amended	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
48	Amended	IPSAS 46 May 2023
64	Amended	IPSAS 39 July 2016
66	Amended	IPSAS 40 January 2017
67	Amended	IPSAS 40 January 2017 IPSAS 45 May 2023
71	Amended	IPSAS 46 May 2023
Heading above paragraph 73	Amended	IPSAS 46 May 2023
Heading above paragraph 74	Amended	IPSAS 46 May 2023
74	Amended	IPSAS 46 May 2023
75	Amended	IPSAS 46 May 2023
76	Amended	IPSAS 46 May 2023
79	Amended	*Improvements to IPSAS* January 2015
81	Amended	IPSAS 46 May 2023
83	Amended	IPSAS 46 May 2023
91	Amended	*Improvements to IPSAS* January 2015
93A	New	IPSAS 40 January 2017
96	Amended	*Improvements to IPSAS* April 2016 IPSAS 44 May 2022
97	Amended	*Improvements to IPSAS* January 2015
97A	New	*Improvements to IPSAS* January 2015
97B	New	*Improvements to IPSAS* January 2015
97C	New	*Improvements to IPSAS* January 2015
99	Amended	IPSAS 46 May 2023
109	Amended	*Improvements to IPSAS* October 2018
110	Amended	*Impairment of Revalued Assets* July 2016
112	Amended	IPSAS 43 January 2022
113	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
115	Amended	IPSAS 47 May 2023
114A	New	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
116	Amended	*Improvements to IPSAS* April 2016 IPSAS 44 May 2022
117	Amended	*Improvements to IPSAS* April 2016 IPSAS 40 January 2017 IPSAS 44 May 2022
121	Amended	IPSAS 46 May 2023
Heading above paragraph 123	Amended	IPSAS 46 May 2023
123	Amended	IPSAS 46 May 2023
123A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
123B	New	IPSAS 46 May 2023
123C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
123D	New	IPSAS 46 May 2023
123E	New	IPSAS 46 May 2023
123F	New	IPSAS 46 May 2023
124	Amended	IPSAS 46 May 2023
129	Deleted	IPSAS 33 January 2015
130	Deleted	IPSAS 33 January 2015
131	Deleted	IPSAS 33 January 2015
131A	New	*Improvements to IPSAS* January 2015
132A	New	IPSAS 32 October 2011
132B	New	*Improvements to IPSAS* January 2015
132C	New	IPSAS 33 January 2015
132D	New	IPSAS 35 January 2015 IPSAS 37 January 2015
132E	New	*Improvements to IPSAS* April 2016
132F	New	*The Applicability of IPSAS* April 2016
132G	New	*Impairment of Revalued Assets* July 2016
132H	New	IPSAS 39 July 2016

Paragraph Affected	How Affected	Affected By
132I	New	IPSAS 40 January 2017
132J	New	*Improvements to IPSAS* October 2018
132K	New	IPSAS 43 January 2022
132L	New	IPSAS 44 May 2022
132M	New	IPSAS 45 May 2023
132N	New	IPSAS 46 May 2023
132O	New	IPSAS 47 May 2023
132P	New	IPSAS 50 November 2024
132Q	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
133	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
AG5	Amended	IPSAS 45 May 2023
AG6	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
Heading above Paragraph AG12	New	IPSAS 45 May 2023
AG12	New	IPSAS 45 May 2023
AG13	New	IPSAS 45 May 2023
AG14	New	IPSAS 45 May 2023
IE22	Amended	IPSAS 45 May 2023

IPSAS 31, *INTANGIBLE ASSETS*

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

Objective

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

Scope

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

3. **This Standard shall be applied in accounting for intangible assets, except:**

   (a) **Intangible assets that are within the scope of another Standard;**

   (b) **Financial assets, as defined in IPSAS 28, *Financial Instruments: Presentation*;**

   (c) **The recognition and measurement of exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources*);**

   (d) **Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;**

   (e) [Deleted]

   (f) [Deleted]

   (g) **Powers and rights conferred by legislation, a constitution, or by equivalent means;**

   (h) **Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes); and**

   (i) **Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts. In cases where the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets.**

   (j) [Deleted]

   (k) [Deleted]

4. [Deleted]

5. [Deleted]

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

   (a) Intangible assets held by an entity for sale in the course of its operations (see IPSAS 12, *Inventories*);

   (b) Leases of intangible assets accounted for in accordance with IPSAS 43, *Leases*;

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

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

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

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

(g) Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44*, Non-current Assets Held for Sale and Discontinued Operations;* and

(h) Assets arising from binding arrangements that are recognized in accordance with IPSAS 47, *Revenue.*

7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under IPSAS 45, *Property, Plant, and Equipment,* or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as property, plant, and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

8. This Standard applies to, among other things, expenditure on advertising, training, start-up, research, and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

9. Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights are within the scope of this Standard and are excluded from the scope of IPSAS 43.

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

Intangible Heritage Assets

11. [Deleted]

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

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

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

(c) Their value may increase over time; and

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

13. Public sector entities may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

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

15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognized intangible assets. Therefore, entities are required to disclose in respect of assets such matters as, for example:

    (a) The measurement basis used;

    (b) The amortization method used, if any;

    (c) The gross carrying amount;

    (d) The accumulated amortization at the end of the period, if any; and

    (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Definitions

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

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

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

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

    An intangible asset is an identifiable nonmonetary asset without physical substance.

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

    Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Intangible Assets

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

Identifiability

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

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

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

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

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

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

Control of an Asset

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

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

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

24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control

the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect such relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of an acquisition) provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the relationships with the users of a service. Because such exchange transactions also provide evidence that the relationships with users of a service are separable, those relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

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

Recognition and Measurement

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

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

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

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

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

27. The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognized in the carrying amount of an asset. Consistent with paragraph 61, subsequent expenditure on brands, mastheads, publishing titles, lists users of a service, and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.

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

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

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

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

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

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

Separate Acquisition

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

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

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

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

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

35. Examples of directly attributable costs are:

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

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

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

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

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

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

(c) Administration and other general overhead costs.

37. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

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

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

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

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

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

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

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

(a) Meets the definition of an asset; and

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

Intangible asset acquired in an acquisition (public sector combination)

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

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

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

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

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

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

(b) **Is incurred after the acquisition of that project; shall be accounted for in accordance with paragraphs 52–60.**

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

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

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

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

Intangible Assets Acquired through Non-Exchange Transactions

42. In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources. A private citizen, for example a Nobel Prize winner, may bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a non-exchange transaction.

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

Exchanges of Assets

44. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way

even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

45. Paragraph 28(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset is reliably measurable if:

(a) The variability in the range of reasonable fair value measurements is not significant for that asset: or

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

If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Internally Generated Goodwill

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

47. In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights) controlled by the entity that can be measured reliably at cost.

48. Differences between the fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally Generated Intangible Assets

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

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

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

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

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

(a) A research phase; and

(b) A development phase.

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

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

Research Phase

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

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

54. Examples of research activities are:

(a) Activities aimed at obtaining new knowledge;

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

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

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

Development Phase

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

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

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

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

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

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

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

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

57. Examples of development activities are:

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

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

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

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

(e) Website costs and software development costs.

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

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

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

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

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

Cost of an Internally Generated Intangible Asset

63. The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29, and 55. Paragraph 70 prohibits reinstatement of expenditure previously recognized as an expense.

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

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

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

(c) Fees to register a legal right; and

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

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

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

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

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

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

Recognition of an Expense

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

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

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

67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 52), except when it is acquired as part of an acquisition. Other examples of expenditure that is recognized as an expense when it is incurred include:

    (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with IPSAS 45. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

    (b) Expenditure on training activities;

    (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and

    (d) Expenditure on relocating or reorganizing part or all of an entity.

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

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

Past Expenses not to be Recognized as an Asset

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

Subsequent Measurement

71. **An entity shall choose either the historical cost model in paragraph 73 or the current value model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the current value model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.**

72. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets

and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Historical Cost Model

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

Current Value Model

74. **After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.**

75. The current value model does not allow:

(a) The revaluation of intangible assets that have not previously been recognized as assets; or

(b) The initial recognition of intangible assets at amounts other than cost.

76. The current value model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 63), the current value model may be applied to the whole of that asset. Also, the current value model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 42–43).

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

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

79. When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated amortization at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

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

81. **If the fair value of a revalued intangible asset can no longer be measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.**

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

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

84. **If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognized in surplus or deficit.**

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

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

Useful Life

87. **An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the entity.**

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

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

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

(b) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

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

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

(e) Expected actions by competitors or potential competitors;

(f) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;

(g) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and

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

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

91. Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.

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

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

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

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

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

is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and shall not include renewal periods.

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

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

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

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

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

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

Intangible Assets with Finite Useful Lives

Amortization Period and Amortization Method

96. **The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44 and the date that the asset is derecognized. The amortization method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.**

97. A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits or service potential embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

97A. There is a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits or service potential embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:

(a) In which the intangible asset is expressed as a measure of revenue, as described in paragraph 97C; or

(b) When it can be demonstrated that revenue and the consumption of the economic benefits or service potential of the intangible asset are highly correlated.

97B. In choosing an appropriate amortization method in accordance with paragraph 97, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as

a predetermined number of years (i.e., time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortization, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits or service potential.

97C. In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortization. For example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches CU100 million). In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortizing the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortization is to be determined.

98. Amortization is usually recognized in surplus or deficit. However, sometimes the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the amortization charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortization of intangible assets used in a production process is included in the carrying amount of inventories (see IPSAS 12).

Residual Value

99. **The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**

(a) **There is a commitment by a third party to acquire the asset at the end of its useful life; or**

(b) **There is an active market (as defined in IPSAS 46) for the asset, and:**

(i) **Residual value can be determined by reference to that market; and**

(ii) **It is probable that such a market will exist at the end of the asset's useful life.**

100. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

101. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*

102. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortization charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of Amortization Period and Amortization Method

103. **The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential**

embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IPSAS 3.

104. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortization period needs to be changed.

105. Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortization is appropriate rather than a straight-line method. Another example is if use of the rights represented by a license is deferred pending action on other components of the entity's strategic plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

Intangible Assets with Indefinite Useful Lives

106. **An intangible asset with an indefinite useful life shall not be amortized.**

107. In accordance with IPSAS 21 and IPSAS 26, an entity is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount:

(a) Annually; and

(b) Whenever there is an indication that the intangible asset may be impaired.

Review of Useful Life Assessment

108. **The useful life of an intangible asset that is not being amortized shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**

109. In accordance with either IPSAS 21 or IPSAS 26, as appropriate, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable service amount or its recoverable amount, determined in accordance with either IPSAS 21 or IPSAS 26, as appropriate, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable service amount or recoverable amount as appropriate, as an impairment loss.

Recoverability of the Carrying Amount—Impairment Losses

110. To determine whether an intangible asset is impaired, an entity applies either IPSAS 21 or IPSAS 26, as appropriate. Those Standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognizes or reverses an impairment loss.

Retirements and Disposals

111. **An intangible asset shall be derecognized:**

(a) **On disposal (including disposal through a non-exchange transaction); or**

(b) **When no future economic benefits or service potential are expected from its use or disposal.**

112. **The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall**

be recognized in surplus or deficit when the asset is derecognized (unless IPSAS 43 requires otherwise on a sale and leaseback).

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). The date of disposal of an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a compliance obligation in the binding arrangement is satisfied in IPSAS 47. IPSAS 43 applies to disposal by a sale and leaseback.

114. If, in accordance with the recognition principle in paragraph 28, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognizes the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.

114A. In the case of:

(a) A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or

(b) A reacquired right recognized as an intangible asset in an acquisition,

if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.

115. The amount of consideration to be included in the surplus or deficit arising from the derecognition of an intangible asset is determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.

116. Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44.

Disclosure

General

117. **An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:**

(a) **Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;**

(b) **The amortization methods used for intangible assets with finite useful lives;**

(c) **The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;**

(d) **The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;**

(e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

(i) **Additions, indicating separately those from internal development, those acquired separately, and those acquired through acquisitions;**

(ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

(iii) **Increases or decreases during the period resulting from revaluations under paragraphs 74, 84 and 85 (if any);**

(iv) **Impairment losses recognized in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**

(v) **Impairment losses reversed in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**

(vi) **Any amortization recognized during the period;**

(vii) **Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and**

(viii) **Other changes in the carrying amount during the period.**

118. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

(a) Brand names;

(b) Mastheads and publishing titles;

(c) Computer software;

(d) Licenses;

(e) Copyrights, patents, and other industrial property rights, service, and operating rights;

(f) Recipes, formulae, models, designs, and prototypes; and

(g) Intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

119. An entity discloses information on impaired intangible assets in accordance with IPSAS 21 or IPSAS 26 in addition to the information required by paragraph 117(e)(iii)–(v).

120. IPSAS 3 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

(a) The assessment of an intangible asset's useful life;

(b) The amortization method; or

(c) Residual values.

121. **An entity shall also disclose:**

(a) **For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.**

(b) **A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material to the entity's financial statements.**

(c) **For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs 42–43):**

(i) **The fair value initially recognized for these assets;**

(ii) **Their carrying amount; and**

(iii) **Whether they are measured after recognition under the historical cost model or the current value model.**

(d) **The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.**

(e) **The amount of contractual commitments for the acquisition of intangible assets.**

122. When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph 89.

Intangible Assets Measured after Recognition using the Current Value Model

123. **If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**

(a) **By class of intangible assets:**

(i) **The effective date of the revaluation;**

(ii) **The carrying amount of revalued intangible assets; and**

(iii) **The carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the historical cost model in paragraph 73;**

(b) **The amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to owners; and**

(c) [Deleted]

123A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For intangible assets that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

123B. To meet the objectives in paragraph 123A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 123A, an entity shall disclose additional information necessary to meet those objectives.

123C. To meet the objectives in paragraph 123A, an entity shall disclose, at a minimum, the following information for each class of intangible assets (see paragraph 123D for information on determining appropriate classes of intangible assets) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) The fair value measurement at the end of the reporting period, and for non-recurring fair value measurements;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(d) For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those intangible assets held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value

measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

123D. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of intangible assets (as determined in paragraph 71) is required on the basis of the following:

(a) The nature, characteristics and risks of the intangible assets; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of intangible assets for which disclosures about fair value measurements should be provided requires judgment. A class of intangible assets will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the class for an intangible asset, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

123E. For each class of intangible assets not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 123C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 123C(c). For such intangible assets, an entity does not need to provide the other disclosures required by this Standard.

123F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

124. It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the historical cost and current value models.

Research and Development Expenditure

125. **An entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period.**

126. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 64 and 65 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 125).

Other Information

127. An entity is encouraged, but not required, to disclose the following information:

(a) A description of any fully amortized intangible asset that is still in use; and

(b) A brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard.

Transitional Provisions

128. **An entity that has previously recognized intangible assets shall apply this Standard retrospectively in accordance with IPSAS 3.**

129. [Deleted]

130. [Deleted]

131. [Deleted]

131A. Paragraph 79 was amended by *Improvements to IPSAS* 2014 issued in January 2015. An entity shall apply that amendment to all revaluations recognized in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period.

Effective Date

132. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after April 1, 2011. Earlier application is encouraged. If an entity applies this Standard for a period beginning before April 1, 2011, it shall disclose that fact and apply IPSAS 21 and IPSAS 26 at the same time.**

132A. **Paragraph 6 was amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in October 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact and at the same time apply IPSAS 32, the amendments to paragraphs 6 and 42A of IPSAS 5, the amendments to paragraphs 25–27 and 85B of IPSAS 13, the amendments to paragraphs 5, 7 and 107C of IPSAS 17 and the amendments to paragraphs 2 and 125A of IPSAS 29.**

132B. **Paragraphs 79, 91 and 97 were amended and paragraphs 97A, 97B, 97C and 131A added by *Improvements to IPSAS* 2014 issued in January 2015. An entity shall apply those amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2015. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2015, it shall disclose that fact.**

132C. **Paragraphs 129, 130, 131 and 133 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

132D. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements* issued in January 2015, amended paragraph 6(d). An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.**

132E. **Paragraphs 3, 96, 116 and 117 were amended by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

132F. **Paragraphs 4 and 5 were deleted by *The Applicability of IPSAS,* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

132G. ***Impairment of Revalued Assets* (Amendments to IPSAS 21 and 26) amended paragraph 110. An entity shall apply that amendment for annual financial statements covering periods beginning on or after**

January 1, 2018. Earlier application is encouraged. If an entity applies that amendment for a period beginning before January 1, 2018, it shall disclose that fact.

132H. **Paragraphs 6, 35 and 64 were amended by IPSAS 39, *Employee Benefits,* issued in July 2016. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

132I. **Paragraphs 3, 6, 18, 24, 40, 41, 66, 67, and 117 were amended and paragraphs 18A, 26A, 39A–39E, 93A and 114A were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Therefore, amounts recognized for intangible assets and goodwill in prior public sector combinations shall not be adjusted. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019, it shall disclose that fact and apply IPSAS 40 at the same time.**

132J. **Paragraph 109 was amended by *Improvements to IPSAS, 2018,* issued in October 2018. An entity shall apply this amendment prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019, it shall disclose that fact and at the same time apply *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*).**

132K. **Paragraphs 6, 9, 112, 113 and AG6 were amended by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

132L. **Paragraphs 6, 96, 116 and 117 were amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

132M. **Paragraphs 3, 7, 15, 67, and AG5 were amended, paragraphs 3(k) and 11 were deleted, and paragraphs AG12, AG13, and AG14 were added by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

132N. **Paragraphs 45, 48, 71, 74, 75, 76, 81, 83, 99, 121, 123, and 124, and the related headings of paragraphs 73, 74, and 123 were amended, and paragraphs 123A–123F were added by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

132O. **Paragraphs 6, 26, 113, 115, and AG6 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

132P. **Paragraph 3 was amended by IPSAS 50, issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027.**

Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.

132Q **Paragraphs 123A, and 123C(a)-123C(g) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

133. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

AG1. An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, provide electronic services, and sell services and products. A website designed for internal access may be used to store entity policies and details of users of a service, and search relevant information.

AG2. The stages of a website's development can be described as follows:

(a) Planning—includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives, and selecting preferences;

(b) Application and Infrastructure Development—includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications, and stress testing;

(c) Graphical Design Development—includes designing the appearance of web pages; and

(d) Content Development—includes creating, purchasing, preparing, and uploading information, either textual or graphical in nature, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

AG3. Once development of a website has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design, and content of the website.

AG4. When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

(a) Whether the website is an internally generated intangible asset that is subject to the requirements of this Standard; and

(b) The appropriate accounting treatment of such expenditure.

AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers, and Internet connections) of a website. Such expenditure is accounted for under IPSAS 45, *Property, Plant, and Equipment*. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's website, the expenditure is recognized as an expense when the services are received.

AG6. IPSAS 31 does not apply to intangible assets held by an entity for sale in the course of its operations (see IPSAS 12 and IPSAS 47) or leases of intangible assets accounted for in accordance with IPSAS 43. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity or that is accounted for in accordance with IPSAS 43.

AG7. An entity's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of this Standard.

AG8. A website arising from development is recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 28 of this Standard for recognition and initial

measurement, an entity can satisfy the requirements in paragraph 55 of this Standard. In particular, an entity may be able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits or service potential in accordance with paragraph 55(d) of this Standard when, for example, the website is capable of generating revenues, including direct revenues from enabling orders to be placed, or providing services using the website, rather than at a physical location using civil servants. An entity is not able to demonstrate how a website developed solely or primarily for promoting and advertising its own services and products will generate probable future economic benefits or service potential, and consequently all expenditure on developing such a website is recognized as an expense when incurred.

AG9. Any internal expenditure on the development and operation of an entity's own website is accounted for in accordance with this Standard. The nature of each activity for which expenditure is incurred (e.g., training employees and maintaining the website) and the website's stage of development or post-development are evaluated to determine the appropriate accounting treatment (additional guidance is provided in the table included at the end of the Illustrative Examples). For example:

(a) The Planning stage is similar in nature to the research phase in paragraphs 52–54 of this Standard. Expenditure incurred in this stage is recognized as an expense when it is incurred;

(b) The Application and Infrastructure Development stage, the Graphical Design stage, and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own services and products, are similar in nature to the development phase in paragraphs 55–62 of this Standard. Expenditure incurred in these stages is included in the cost of a website recognized as an intangible asset in accordance with paragraph AG8 when the expenditure can be directly attributed and is necessary to creating, producing or preparing the website for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own services and products) specifically for a website, or expenditure to enable use of the content (e.g., a fee for acquiring a license to reproduce) on the website, is included in the cost of development when this condition is met. However, in accordance with paragraph 83 of this Standard, expenditure on an intangible item that was initially recognized as an expense in previous financial statements is not recognized as part of the cost of an intangible asset at a later date (e.g., if the costs of a copyright have been fully amortized, and the content is subsequently provided on a website);

(c) Expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products), is recognized as an expense when incurred in accordance with paragraph 67(c) of this Standard. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure is recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the website; and

(d) The Operating stage begins once development of a website is complete. Expenditure incurred in this stage is recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 28 of this Standard.

AG10. A website that is recognized as an intangible asset under paragraph AG8 of this Application Guidance is measured after initial recognition by applying the requirements of paragraphs 71–86 of this Standard. The best estimate of a website's useful life should be short, as described in paragraph 91.

AG11. The guidance in paragraphs AG1–AG10 does not specifically apply to software development costs. However, an entity may apply the principles in these paragraphs.

Intangible Heritage Assets: Cost or Fair Value Cannot be Measured Reliably

AG12. Where intangible heritage assets are not recognized in the financial statements because, at initial measurement, their cost or fair value cannot be measured reliably, the entity shall disclose:

(a) The difficulties in obtaining a reliable measurement that prevented recognition; and

(b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

AG13. The disclosures should ensure that, when read in the context of information about recognized intangible assets, the financial statements provide useful and relevant information about the entity's overall holding of intangible assets, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG14. These disclosures may be presented in aggregate for groups or classes of intangible assets, provided this aggregation does not obscure significant information.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure and text of the IFRS, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS. The Comparison with IAS 38 references the December 31, 2008 version of IAS 38.

Scope

BC3. The Board considered whether powers and rights conferred by legislation, a constitution, or by equivalent means should be included in the scope of the Standard. The Board has not formed a view on this topic and therefore, these powers and rights are excluded from the scope of this Standard. The Board is currently developing a Conceptual Framework and will reconsider, if necessary, the applicability of this Standard to powers and rights conferred by legislation, a constitution, or by equivalent means.

BC4. IAS 38 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. In issuing IPSAS 31, the IPSASB considered whether goodwill and intangible assets acquired in a business combination should be included in the scope of this Standard. The IPSASB had not yet issued an IPSAS dealing with business combinations and considered it likely that a number of public sector specific issues will arise when combinations of public sector entities take place. The IPSASB concluded at that time that goodwill and intangible assets acquired in a business combination should not be included in the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* users were referred to the requirements of the relevant international or national accounting standards dealing with goodwill and intangible assets acquired in a business combination.

BC4A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations.* IPSAS 40 specifies the accounting for public sector combinations, including the initial recognition and measurement of intangible assets. IPSAS 40 does not specify the subsequent measurement and disclosure of intangible assets recognized as part of a public sector combination. Consequently, the IPSASB reconsidered whether goodwill and intangible assets recognized in a public sector combination should be included in the scope of this Standard. The IPSASB agreed that such assets should be included in the scope of this Standard as a result of the IPSASB issuing IPSAS 40, and amended the Standard accordingly.

BC5. When this Standard was developed, IAS 38 contained requirements on exchanges of assets when the exchange transaction lacks commercial substance. The IPSASB considered whether this guidance was necessary and concluded that it was not necessary because this issue was addressed in IPSAS 23.

BC6. The IASB has issued an Interpretation of IAS 38 dealing with accounting for website costs. The IPSASB believes the guidance contained in SIC 32 is relevant to the public sector. Accordingly, IPSAS 31 includes as application guidance the definitions and guidance contained in SIC 32. This application guidance is an integral part of IPSAS 31. The appendix in SIC 32 that illustrates the relevant accounting principles and how they are linked to IPSAS 31 is included in the illustrative examples.

BC7. The Standard does not address emissions trading schemes. The IPSASB noted that, emissions trading schemes a government has established are a type of powers and rights conferred by legislation, a constitution, or by equivalent means, which are excluded from the scope of the Standard (see paragraph BC3). A government may acquire permits under emissions trading schemes. v treatment of such permits is currently being studied by some international and national standard-setting bodies and a consensus has not been reached on the appropriate accounting treatment. The IPSASB will reconsider, if necessary, the applicability of this Standard to emissions trading schemes.

Intangible Assets Acquired through a Non-Exchange Transaction

BC8. At the time this Standard was developed, IPSAS 23 prescribed the initial recognition, initial measurement and disclosure of assets and liabilities arising from non-exchange revenue transactions. This Standard addresses the circumstance where an intangible asset is acquired through a non-exchange transaction. The IPSASB agreed that, for intangible assets arising from such transactions, an entity applies the requirements of IPSAS 23 in conjunction with this Standard for initial measurement of the intangible asset and, accordingly, considers directly attributable costs specified in this Standard.

Current Value Model

BC9. The current value model proposed in IPSAS 31 is similar to the revaluation model in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. When this Standard was issued, IPSAS 17, *Property, Plant, and Equipment* required revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB had considered this approach for intangible assets, but had concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB had concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that this conclusion is still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

Revision of IPSAS 31 as a result of IASB's *Improvements to IFRS and Narrow Scope Amendments* issued in December 2013 and May 2014

BC10. The IPSASB reviewed the revisions to IAS 38 included in the *Improvements to IFRS* and *Clarification of Acceptable Methods of Depreciation and Amortisation* issued by the IASB in December 2013 and May 2014 and generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 31 as a result of Part II of *Improvements to IPSAS 2015:* issues raised by stakeholders

BC11. When IPSAS 31 was revised as a result of Part II of *Improvements to IPSAS 2015* stakeholders had indicated that IPSAS referred to non-current assets held for sale and disposal groups inconsistently. The IPSASB had concluded that IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, might only be appropriate for the public sector in certain circumstances, for the following reasons:

(a) Sales of assets in the public sector might not be completed within one year because of the levels of approval required. This had raised questions about the relevance and consistency of information provided in accordance with IFRS 5. In particular, the IPSASB had noted that, under IFRS 5, non-current assets held for sale are not depreciated. The IPSASB had concerns that not depreciating assets for an extended period of time might be inappropriate.

(b) Many assets in the public sector are disposed of through a transfer or distribution for no or nominal consideration. As IFRS 5 deals with sales at fair value, the measurement and disclosure requirements

might not provide relevant information for these transfers. However, the IPSASB had recognized that the measurement and disclosure requirements in IFRS 5 might be appropriate where sales are intended to take place at fair value.

(c) Many discontinued operations in the public sector are operations that previously provided services at no or nominal cost. As IFRS 5 deals with discontinued operations that were either cash-generating units or a group of cash-generating units prior to disposal or being classified as held for sale, the disclosure requirements might not provide relevant information for public sector discontinued operations. However, the IPSASB had recognized that the disclosure requirements in IFRS 5 might be appropriate where discontinued operations were previously either cash-generating units or one or more groups of cash generating units.

Because the IPSASB had concluded that IFRS 5 would only be appropriate in the public sector in limited circumstances, the IPSASB agreed to remove references in IPSAS to international or national accounting standards dealing with non-current assets held for sale and discontinued operations. The IPSASB had concerns that retaining this reference might result in entities following the requirements of IFRS 5 in circumstances where this might not be appropriate. The IPSASB had noted that IPSAS 3 provides guidance on selecting accounting policies for transactions that are not specifically addressed in IPSAS. This guidance would permit entities to adopt an accounting policy that is consistent with IFRS 5 where the entity considers this is appropriate.

BC11A. In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB concluded that in certain circumstances it would be appropriate for public sector entities to apply the requirements of IFRS. As a result, all the relevant references have been added.

Revision of IPSAS 31 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC12. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 31 as a result of *Improvements to IPSAS, 2018*

BC13. Paragraph 109 requires an entity to test an intangible asset for impairment when reassessing its useful life. When this standard was issued, such a test was only required for intangible assets measured under the cost model. Following the publication of *Impairment of Revalued Assets* (Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*) in July 2016, this test is required for all intangible assets, and paragraph 109 has been amended accordingly.

Revision of IPSAS 31 as a result of IPSAS 45, *Property, Plant, and Equipment*

BC14. During development of IPSAS 45, *Property, Plant, and Equipment*, the IPSASB concluded that the heritage nature of an asset does not prevent its recognition. On the basis that the same conceptual arguments apply to intangible heritage as those that apply to heritage property, plant, and equipment the IPSASB decided to remove the heritage scope exclusion in IPSAS 31. This ensures that IPSAS 31's treatment of intangible heritage assets is consistent with the accounting treatment for heritage property, plant, and equipment.

Recognition of intangible heritage assets that meet IPSAS 31's recognition criteria will provide information that users of the financial statements find useful for accountability and decision-making.

BC15. The IPSASB considered whether the disclosure requirements in IPSAS 45 for unrecognized heritage property, plant, and equipment should also apply to unrecognized intangible heritage assets. On the basis that disclosure requirements in IPSAS 45 will provide useful information for accountability and decision-making on intangible heritage assets that are not recognized because their cost or fair value cannot be measured reliably, the IPSASB concluded that the same disclosure requirements should apply to intangible heritage assets. The IPSASB decided, therefore, to add application guidance that sets out disclosure requirements with respect to unrecognized intangible heritage assets.

Revision of IPSAS 31 as a result of IPSAS 46, *Measurement*

BC16. IPSAS 46, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets, to ensure a consistent approach across all IPSAS. The IPSASB agreed to remove guidance on measurement in IPSAS 31 where such guidance was now provided in IPSAS 46, and to refer preparers to the guidance in that Standard.

BC17. IPSAS 46 introduced current operational value, a public sector current value measurement basis. This measurement basis is primarily applied when assets are held for their operational capacity. When IPSAS 46 was issued, the IPSASB concluded intangible assets are held for their highest and best use and measurement is therefore consistent with fair value measurement. Current operational value was therefore not added as an available measurement basis to IPSAS 31.

Revision of IPSAS 31 as a result of Part 4 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC18. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC19. In August 2024, the IPSASB published ED 90, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC20. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC21. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

ILLUSTRATIVE EXAMPLES

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Illustrative Examples

These examples accompany, but are not part of, IPSAS 31.

Recognition and Measurement of an Internally-Generated Intangible Asset

Example Applying Paragraph 63 of this Standard

IE1. An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. During the financial year ending March 31, 20X8, expenditure incurred for the development of the system was CU1,000[1] of which CU900 was incurred before March 1, 20X8 and CU100 was incurred between March 1, 20X8 and March 31, 20X8. The entity is able to demonstrate that, at March 1, 20X8, the newly developed system met the criteria for recognition as an intangible asset. The recoverable service amount of the system (including future cash outflows to complete the development before it is available for use) is estimated to be CU500.

IE2. At the end of the financial year, the developed system is recognized as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e., March 1, 20X8). The CU900 expenditure incurred before March 1, 20X8 is recognized as an expense because the recognition criteria were not met until March 1, 20X8. This expenditure does not form part of the cost of the system recognized in the statement of financial position.

IE3. During the financial year ending March 31, 20X9, expenditure incurred is CU2,000. At the end of this financial year, the recoverable service amount of the system (including future cash outflows to complete the system before it is available for use) is estimated to be CU1,900.

IE4. As at March 31, 20X9, the cost of the developed system is CU2,100 (CU100 expenditure recognized at the end of 20X8 plus CU2,000 expenditure recognized in the 20X9 financial year). The entity recognizes an impairment loss of CU200 to adjust the carrying amount of the developed system before the impairment loss (CU2,100) to its recoverable service amount (CU1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in IPSAS 21 are met.

Example Applying Paragraphs 55–65 of this Standard

IE5. An entity is developing a system which produces statistical reports for its internal use and for sale to third-parties. The system is technically feasible, the entity is aware that there is a demand for this type of report and which third-parties are willing to pay for the product and therefore will -generate probable future economic benefits. The expenditure attributable to the development of this system can be identified and measured reliably.

Assessing the Useful Lives of Intangible Assets

IE6. The following guidance provides examples on determining the useful life of an intangible asset in accordance with this Standard.

IE7. Each of the following examples describes an acquired intangible asset, the facts and circumstances surrounding the determination of its useful life, and the subsequent accounting based on that determination.

An Acquired Patent with a Finite Useful Life

IE8. Entity A acquires a patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. The vaccine protected by the patent is expected to be a source of service

[1] In this Standard, monetary amounts are denominated in "currency units" (CU).

potential for at least 15 years. Entity A has a commitment from Entity C to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and Entity A intends to sell the patent in five years.

IE9. The patent would be amortized over its five-year useful life to Entity A, with a residual value equal to 60 per cent of the patent's fair value at the date it was acquired. The patent would also be reviewed for impairment in accordance with IPSAS 21.

An Acquired Patent with an Indefinite Useful Life

IE10. Entity A acquires an asset, the patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy. There is evidence to support ongoing renewal of the patent. A contract with Entity B stipulates that Entity B will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to the Entity B when the improvements are made.

IE11. An analysis of product lifecycle studies, and demographic and environmental trends, provides evidence that the patent will provide service potential to Entity A by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life. Therefore, the patent would not be amortized unless its useful life is determined to be finite. The patent would be tested for impairment in accordance with IPSAS 21.

An Acquired Copyright that has a Remaining Legal Life of 50 Years

IE12. Entity A acquires a copyright from Entity B to enable it to reproduce and sell the copyrighted material on a cost-recovery basis to its constituency. An analysis of the habits of the entity's constituency and other trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

IE13. The copyright would be amortized over its 30-year estimated useful life. The copyright also would be reviewed for impairment in accordance with IPSAS 21.

An Acquired Broadcasting License that Expires in Five Years—Part A

IE14. Entity A acquires a broadcasting license from Entity B. Entity A intends to provide free broadcasting services in the community. The broadcasting license is renewable every 10 years if Entity A provides at least an average level of service to its users of its service and complies with the relevant legislative requirements. The license may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. Entity A intends to renew the license indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the license renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the license is expected to contribute to Entity A's ability to provide free broadcasting services indefinitely.

IE15. Entity B does not recognize its power to grant broadcasting licenses as an intangible asset. The broadcasting license would be treated by Entity A as having an indefinite useful life because it is expected to contribute to the entity's ability to provide free broadcasting services indefinitely. Therefore, the license would not be amortized until its useful life is determined to be finite. The license would be tested for impairment in accordance with IPSAS 21.

An Acquired Broadcasting License that Expires in Five Years—Part B

IE16. The licensing authority subsequently decides that it will no longer renew broadcasting licenses, but rather will auction the licenses. At the time the licensing authority's decision is made, Entity A's broadcasting license has three years until it expires. Entity A expects that the license will continue to provide service potential until the license expires.

IE17. Because the broadcasting license can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired license would be amortized by Entity A over its remaining three-year useful life and immediately tested for impairment in accordance with IPSAS 21.

An Acquired Right to Operate a Public Transit Route Between Two Cities that Expires in Three Years

IE18. Entity A acquires from Entity B a right to operate a public transit route between two cities, which generates revenues. The transit route may be renewed every five years, and Entity A intends to comply with the applicable rules and regulations surrounding renewal. Transit route renewals are routinely granted at a minimal cost and historically have been renewed when the entity that holds the rights to the route has complied with the applicable rules and regulations. Entity A expects to provide transit services on the route indefinitely. An analysis of demand and cash flows supports those assumptions.

IE19. Because the facts and circumstances support the public transit route providing cash flows to Entity A for an indefinite period of time, the intangible asset related to the transit route is treated as having an indefinite useful life. Therefore, the intangible asset would not be amortized until its useful life is determined to be finite. It would be tested for impairment in accordance with IPSAS 26 annually and whenever there is an indication that it may be impaired.

An Acquired List of Property Owners

IE20. A local authority (Entity A) acquires a list of property owners from another public sector entity which is responsible for registering property deeds (Entity B). Entity B is at another level of government, and is not part of Entity A's reporting entity. Entity A intends to use the list to generate tax revenues and Entity A expects that it will be able to derive benefit from the information on the acquired list[2] for at least one year, but no more than three years.

IE21. The list of property owners would be amortized over Entity A's best estimate of its useful life, say 18 months. Although Entity B may intend to add property owner names and other information to the list in the future, the expected benefits to Entity A of the acquired list relate only to the property owners on that list at the date Entity A acquired the list. The list of property owners also would be reviewed for impairment in accordance with IPSAS 21 by assessing annually and whenever there is any indication that it may be impaired.

Examples Illustrating the Application Guidance

IE22. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2–AG3 and to illustrate application of paragraphs AG4–AG11 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

[2] Although the local authority may intend to add property owners and other information to the database in the future, the expected benefits of the acquired database relate only to the property owners on that database at the date it was acquired. Subsequent additions would be considered to be internally-developed intangible assets, and accounted for in accordance with this Standard.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
Planning	
• Undertaking feasibility studies; • Defining hardware and software specifications; • Evaluating alternative products and suppliers; and • Selecting preferences.	Recognize as an expense when incurred in accordance with paragraph 52 of this Standard.
Application and Infrastructure Development	
• Purchasing or developing hardware. • Obtaining a domain name; • Developing operating software (e.g., operating system and server software); • Developing code for the application; • Installing developed applications on the web server; and • Stress testing.	Apply the requirements of IPSAS 45, *Property, Plant, and Equipment*. Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs 28 and 55[3] of this Standard.
Graphical Design Development	
• Designing the appearance (e.g., layout and color) of web pages.	Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs 28 and 55[4] of this Standard.
Content Development	
• Creating, purchasing, preparing (e.g., creating links and identifying tags), and uploading information, either textual or graphic in nature, on the website before the completion of the website's development. Examples of content include information about an entity, services, or products, and topics that subscribers access.	Recognize as an expense when incurred in accordance with paragraph 67(c) of this Standard to the extent that content is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products). Otherwise, recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs 28 and 55[5] of this Standard.

[3] All expenditure on developing a website solely or primarily for promoting, advertising, or providing information to the public at large regarding the entity's own products and services is recognized an expense when incurred in accordance with paragraph 66 of this Standard.

[4] See footnote 4.

[5] See footnote 4.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
Operating	
• Updating graphics and revising content; • Adding new functions, features, and content; • Registering the website with search engines; • Backing up data; • Reviewing security access; and • Analyzing usage of the website.	Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph 28 of this Standard, in which case the expenditure is recognized in the carrying amount of the website asset.
Other	
• Selling, administrative, and other general overhead expenditure unless it can be directly attributed to preparing the website for use to operate in the manner intended by management; • Clearly identified inefficiencies and initial operating deficits incurred before the website achieves planned performance (e.g., false-start testing); and • Training employees to operate the website.	Recognize as an expense when incurred in accordance with paragraphs 63–69 of this Standard.

COMPARISON WITH IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

- IPSAS 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.
- IPSAS 31 incorporates the guidance contained in the Standing Interpretation Committee's Interpretation 32, *Intangible Assets—Web Site Costs* as Application Guidance to illustrate the relevant accounting principles.
- IPSAS 31 includes paragraphs that describe intangible heritage assets, and states that an entity is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognized. It has application guidance that requires disclosure on intangible heritage assets that have not been recognized. IAS 38 does not have similar guidance.
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions. IPSAS 31 states that where an intangible asset is acquired through a non-exchange transaction, the cost is its fair value as at the date it is acquired.
- IAS 38 provides guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 31 does not include this guidance.
- The examples included in IAS 38 have been modified to better address public sector circumstances.
- IPSAS 31 uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms "revenue," "statement of financial performance," "surplus or deficit," "future economic benefits or service potential," "accumulated surpluses or deficits," "operating/operation," "rights from binding arrangements (including rights from contracts or other legal rights)," and "net assets/equity" in IPSAS 31. The equivalent terms in IAS 38 are "income," "statement of comprehensive income," "profit or loss," "future economic benefits," "retained earnings," "business," "contractual or other legal rights," and "equity."

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IPSAS 32, *SERVICE CONCESSION ARRANGEMENTS: GRANTOR*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) sets out the accounting requirements of the grantor in a service concession arrangement. It is adapted from International Financial Reporting Interpretations Committee (IFRIC®) Interpretation 12 (IFRIC 12), *Service Concession Arrangements*, developed by the International Financial Reporting Interpretations Committee and published by the International Accounting Standards Board (IASB®). IFRIC 12 sets out the accounting requirements of the operator in a service concession arrangement. This IPSAS also contains extracts from Standing Interpretations Committee (SIC®) Interpretation 29 (SIC-29), *Service Concession Arrangements: Disclosures*, developed by the Standing Interpretations Committee and published by the IASB. Extracts from IFRIC 12 and SIC-29 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 32, *SERVICE CONCESSION ARRANGEMENTS: GRANTOR*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 32, *Service Concession Arrangements: Grantor* was issued in October 2011.

Since then, IPSAS 32 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)

Table of Amended Paragraphs in IPSAS 32

Paragraph Affected	How Affected	Affected By
3	Deleted	*The Applicability of IPSAS* April 2016
4	Deleted	*The Applicability of IPSAS* April 2016
12	Amended	IPSAS 45 May 2023
13	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
20	Amended	IPSAS 41 August 2018
29	Amended	IPSAS 41 August 2018
30	Amended	IPSAS 47 May 2023
32	Amended	*Improvements to IPSAS* April 2016
33	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
35	Deleted	IPSAS 33 January 2015
35A	New	*Improvements to IPSAS* April 2016
35B	New	*Improvements to IPSAS* April 2016
36A	New	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
36B	New	*Improvements to IPSAS* April 2016
36C	New	*The Applicability of IPSAS* April 2016
36D	Amended	*COVID-19: Deferral of Effective Dates* November 2020
36E	New	IPSAS 43 January 2022
36F	New	IPSAS 45 May 2023
36G	New	IPSAS 47 May 2023
37	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
AG11	Amended	IPSAS 45 May 2023
AG13	Amended	IPSAS 43 January 2022
AG16	Amended	IPSAS 45 May 2023
AG17	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023
AG20	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
AG23	Amended	IPSAS 45 May 2023
AG24	Amended	IPSAS 45 May 2023
AG25	Amended	IPSAS 45 May 2023
AG30	Amended	IPSAS 45 May 2023
AG33	Amended	IPSAS 45 May 2023
AG35	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
AG37	Amended	IPSAS 41 August 2018
AG45	Amended	IPSAS 41 August 2018
AG48	Amended	IPSAS 45 May 2023
AG52	Amended	IPSAS 41 August 2018
AG53	Amended	IPSAS 41 August 2018
AG56	Amended	IPSAS 47 May 2023
AG64	Amended	IPSAS 47 May 2023
AG68	Deleted	IPSAS 33 January 2015
AG69	Deleted	IPSAS 33 January 2015

Paragraph Affected	How Affected	Affected By
AG70	Deleted	IPSAS 33 January 2015
AG71	Deleted	IPSAS 33 January 2015
AG72	Deleted	IPSAS 33 January 2015
AG73	Deleted	IPSAS 33 January 2015
IG2	Amended	IPSAS 41 August 2018 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 47 May 2023
IG4	Amended	IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 47 May 2023
IE6	Amended	IPSAS 45 May 2023
IE8	Amended	IPSAS 45 May 2023
IE15	Amended	IPSAS 45 May 2023
IE17	Amended	IPSAS 45 May 2023
IE22	Amended	IPSAS 45 May 2023
IE30	Amended	IPSAS 45 May 2023
IE39	Amended	IPSAS 45 May 2023

IPSAS 32, *SERVICE CONCESSION ARRANGEMENTS: GRANTOR*

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International Public Sector Accounting Standard 32, *Service Concession Arrangements: Grantor* is set out in paragraphs 1–37. All the paragraphs have equal authority. IPSAS 32 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Scope (see paragraphs AG1–AG2)

2. **An entity[1] that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.**

3. [Deleted]

4. [Deleted]

5. Arrangements within the scope of this Standard involve the operator providing public services related to the service concession asset on behalf of the grantor.

6. Arrangements outside the scope of this Standard are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (e.g., outsourcing, service contracts, or privatization).

7. This Standard does not specify the accounting by operators (guidance on accounting for service concession arrangements by the operator can be found in the relevant international or national accounting standard dealing with service concession arrangements).

Definitions (see paragraphs AG3–AG4)

8. **The following terms are used in this Standard with the meanings specified:**

A binding arrangement, for the purposes of this Standard, describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

A grantor, for the purposes of this Standard, is the entity that grants the right to use the service concession asset to the operator.

An operator, for the purposes of this Standard, is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

A service concession arrangement is a binding arrangement between a grantor and an operator in which:

(a) **The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and**

(b) **The operator is compensated for its services over the period of the service concession arrangement.**

A service concession asset is an asset used to provide public services in a service concession arrangement that:

(a) **Is provided by the operator which:**

(i) **The operator constructs, develops, or acquires from a third party; or**

(ii) **Is an existing asset of the operator; or**

[1] An entity for the purposes of this Standard is referred to as the grantor.

(b) **Is provided by the grantor which:**

(i) **Is an existing asset of the grantor; or**

(ii) **Is an upgrade to an existing asset of the grantor.**

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5–AG35)

9. **The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:**

(a) **The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**

(b) **The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.**

10. **This Standard applies to an asset used in a service concession arrangement for its entire useful life (a "whole-of-life" asset) if the conditions in paragraph 9(a) are met.**

11. **The grantor shall initially measure the service concession asset recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at its fair value, except as noted in paragraph 12.**

12. **Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted for in accordance with IPSAS 31, *Intangible Assets* or IPSAS 45, *Property, Plant, and Equipment,* as appropriate.**

13. **After initial recognition or reclassification, service concession assets shall be accounted for in accordance with IPSAS 31 or IPSAS 45, as appropriate.**

Recognition and Measurement of Liabilities (see paragraphs AG36–AG50)

14. **Where the grantor recognizes a service concession asset in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor shall also recognize a liability. The grantor shall not recognize a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph 12, except in circumstances where additional consideration is provided by the operator, as noted in paragraph 15.**

15. **The liability recognized in accordance with paragraph 14 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph 11, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.**

16. The nature of the liability recognized is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.

17. In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:

(a) Making payments to the operator (the "financial liability" model);

(b) Compensating the operator by other means (the "grant of a right to the operator" model) such as:

(i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial Liability Model (see paragraphs AG37–AG46)

18. **Where the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor shall account for the liability recognized in accordance with paragraph 14 as a financial liability.**

19. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

(a) Specified or determinable amounts; or

(b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts referred to in paragraph 19(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

20. IPSAS 28, *Financial Instruments: Presentation,* IPSAS 30, *Financial Instruments*: Disclosures and the derecognition requirements in IPSAS 41, *Financial Instruments* apply to the financial liability recognized under paragraph 14, except where this Standard provides requirements and guidance.

21. **The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognized in accordance with paragraph 14, a finance charge, and charges for services provided by the operator.**

22. **The finance charge and charges for services provided by the operator in a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses.**

23. **Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator shall be allocated by reference to the relative fair values of the service concession asset and the services. Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator is determined using estimation techniques.**

Grant of a Right to the Operator Model (see paragraphs AG47–AG49)

24. **Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor shall account for the liability recognized in accordance with paragraph 14 as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.**

25. **The grantor shall recognize revenue and reduce the liability recognized in accordance with paragraph 24 according to the economic substance of the service concession arrangement.**

26. Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset, the exchange is regarded as a transaction that generates revenue. As the right granted to the operator is effective for the period of the service concession arrangement, the grantor

does not recognize revenue from the exchange immediately. Instead, a liability is recognized for any portion of the revenue that is not yet earned. The revenue is recognized according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognized.

Dividing the Arrangement (see paragraph AG50)

27. **If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognized in accordance with paragraph 14. The amount initially recognized for the total liability shall be the same amount as that specified in paragraph 15.**

28. **The grantor shall account for each part of the liability referred to in paragraph 27 in accordance with paragraphs 18–26.**

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraphs AG51–AG54)

29. **The grantor shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 28, IPSAS 30, and IPSAS 41.**

Other Revenues (see paragraphs AG55–AG64)

30. **The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–26, in accordance with IPSAS 47, *Revenue.***

Presentation and Disclosure (see paragraphs AG65–AG67)

31. **The grantor shall present information in accordance with IPSAS 1.**

32. **All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:**

    (a) **A description of the arrangement;**

    (b) **Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);**

    (c) **The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:**

        (i) **Rights to use specified assets;**

        (ii) **Rights to expect the operator to provide specified services in relation to the service concession arrangement;**

        (iii) **The carrying amount of service concession assets recognized at the end of the reporting period, including existing assets of the grantor reclassified as service concession assets;**

        (iv) **Rights to receive specified assets at the end of the service concession arrangement;**

        (v) **Renewal and termination options;**

        (vi) **Other rights and obligations (e.g., major overhaul of service concession assets); and**

        (vii) **Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and**

(d) **Changes in the arrangement occurring during the reporting period.**

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure is in addition to the disclosures required in IPSAS 31 and/or IPSAS 45 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with IPSAS 31 and/or IPSAS 45 or may be included in more than one class of assets disclosed in accordance with IPSAS 31 and/or IPSAS 45. For example, for the purposes of IPSAS 45 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

Transitional

34. **A grantor that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

35. [Deleted]

35A. Paragraphs 13, 32, 33 and AG35 were amended by *Improvements to IPSAS 2015* issued in April 2016. An entity that has previously applied IPSAS 32 shall reassess the classification of service concession assets in accordance with paragraph 13. The entity shall present service concession assets in the revised classification retrospectively in accordance with IPSAS 3.

35B. Where service concessions assets are reclassified in accordance with paragraph 35A, an entity shall account for the service concession assets as follows:

(a) If the service concession assets have previously been measured using the cost model, and the class of assets to which those service concession assets have been reclassified is measured using the cost model, the entity shall continue to apply the cost model. The entity shall carry forward the cost of the service concession assets, along with any accumulated depreciation or amortization and any accumulated impairment losses.

(b) If the service concession assets have previously been measured using the cost model, and the class of assets to which those service concession assets have been reclassified is measured using the revaluation model, the entity shall either:

(i) Revalue the service concession assets; or

(ii) Subject to the requirements in IPSAS 3 dealing with changes in accounting policies, retrospectively apply the cost model to the remaining assets in the class of asset to which those service concession assets have been reclassified. Where information regarding the cost of the assets is not available, the entity may use the carrying amount of the assets as the deemed cost.

(c) If the service concession assets have previously been measured using the revaluation model, and the class of assets to which those service concession assets have been reclassified is measured using the cost model, the entity shall either:

(i) Retrospectively apply the cost model to the service concession assets. Where information regarding the cost of the assets is not available, the entity may use the carrying amount of the service concession assets as the deemed cost; or

(ii) Subject to the requirements in IPSAS 3 dealing with changes in accounting policies, revalue the remaining assets in the class of asset to which those service concession assets have been reclassified.

(d) If the service concession assets have previously been measured using the revaluation model, and the class of assets to which those service concession assets have been reclassified is measured using the revaluation model, the entity shall adjust the revaluation surplus in respect of each class of asset. Where previous revaluation decreases have been recognized in respect of either a service concession asset or one or more assets in the class to which the service concession asset is transferred, the entity shall consider whether transfers between revaluation surplus and accumulated surpluses or deficits are required.

Effective Date

36. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2014, it shall disclose that fact and apply IPSAS 5, *Borrowing Costs,* IPSAS 13, *Leases*, IPSAS 17, IPSAS 29, and IPSAS 31 at the same time.**

36A. **Paragraphs 35 and 37 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

36B. **Paragraphs 13, 32, 33 and AG35 were amended and paragraphs 35A and 35B added by *Improvements to IPSAS* 2015 issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017 it shall disclose that fact.**

36C. **Paragraphs 3 and 4 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

36D. **Paragraphs 20, 29, AG37, AG45, AG52 and AG53 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

36E. **Paragraphs AG13 and AG17 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

36F. **Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35, and AG48 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

36G. **Paragraphs 30, AG56, and AG64 were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

37. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 32.

Scope (see paragraphs 2–7)

AG1. This Standard is intended to "mirror" Interpretation 12 of the International Financial Reporting Interpretations Committee, *Service Concession Arrangements* (IFRIC 12), which sets out the accounting requirements for the private sector operator in a service concession arrangement. To do so, the scope, principles for recognition of an asset, and terminology are consistent with the applicable guidance in IFRIC 12. However, because this Standard deals with the accounting issues of the grantor, this Standard addresses the issues identified in IFRIC 12 from the grantor's point of view, as follows:

(a) The grantor recognizes a financial liability when it is obliged to make a series of payments to the operator for provision of a service concession asset (i.e., constructed, developed, acquired, or upgraded). Using the measurement requirements specified in this Standard under paragraphs 12, 14, and 20 of IFRIC 12, the operator recognizes revenue for the construction, development, acquisition, upgrade, and operation services it provides. Under paragraph 8 of IFRIC 12, the operator derecognizes an asset that it held and recognized as property, plant, and equipment before entering the service concession arrangement.

(b) The grantor recognizes a liability when it grants the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset. Under paragraph 26 of IFRIC 12, the operator recognizes an intangible asset.

(c) The grantor derecognizes an asset it grants to the operator and over which it no longer has control. Under paragraph 27 of IFRIC 12, the operator recognizes the asset and a liability in respect of any obligations it has assumed in exchange for the asset.

AG2. Paragraph 9 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is within the scope of the Standard. Paragraph 10 of the Standard specifies the condition under which whole-of-life assets are within the scope of the Standard.

Definitions (see paragraph 8)

AG3. Paragraph 8 defines a service concession arrangement. Common features of a service concession arrangement are:

(a) The grantor is a public sector entity;

(b) The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor;

(c) The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement;

(d) The operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and

(e) The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

AG4. Paragraph 8 defines a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services.

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9–13)

Recognition of a Service Concession Asset

AG5. The assessment of whether a service concession asset should be recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

AG6. The control or regulation referred to in paragraph 9(a) could be by a binding arrangement, or otherwise (such as through a third party regulator that regulates other entities that operate in the same industry or sector as the grantor), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. The binding arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement. When the binding arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph 9(a) regarding control in relation to those to whom the operator must provide services.

AG7. For the purpose of paragraph 9(a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, binding arrangement, or a third party regulator that regulates other entities that operate in the same industry or sector (e.g., hospitals, schools, or universities) as the grantor (e.g., by a capping mechanism). However, the condition is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if, for example, an arrangement purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

AG8. Many governments have the power to regulate the behavior of entities operating in certain sectors of the economy, either directly, or through specifically created agencies. For the purpose of paragraph 9(a), the broad regulatory powers described above do not constitute control. In this Standard, the term "regulate" is intended to be applied only in the context of the specific terms and conditions of the service concession arrangement. For example, a regulator of rail services may determine rates that apply to the rail industry as a whole. Depending on the legal framework in a jurisdiction, such rates may be implicit in the binding arrangement governing a service concession arrangement involving the provision of railway transportation, or they may be specifically referred to therein. However, in both cases, the control of the service concession asset is derived from either the contract, or similar binding arrangement, or from the specific regulation applicable to rail services and not from the fact that the grantor is a public sector entity that is related to the regulator of rail service.

AG9. For the purpose of paragraph 9(b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset and give the grantor a continuing right of use throughout the period of the service concession arrangement. The residual interest in the asset is the estimated current value of the asset as if it were already of the age and in the condition expected at the end of the period of the service concession arrangement.

AG10. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 9(a) and any significant residual interest in the asset, the operator is only managing the asset on the grantor's behalf—even though, in many cases, it may have wide managerial discretion.

AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer or surface of a road or the roof of a building), the asset is considered as a whole. Thus the condition in paragraph 9(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

AG12. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph 9(a) and partly unregulated. However, these arrangements take a variety of forms:

(a) Any asset that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in IPSAS 26, *Impairment of Cash-Generating Assets* is analyzed separately to determine whether the condition set out in paragraph 9(a) is met if it is used wholly for unregulated purposes (e.g., this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and

(b) When purely ancillary activities (such as a hospital shop) are unregulated, the control tests are applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 9(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

AG13. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with IPSAS 43.

Existing Asset of the Grantor

AG14. The arrangement may involve an existing asset of the grantor:

(a) To which the grantor gives the operator access for the purpose of the service concession arrangement; or

(b) To which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.

AG15. The requirement in paragraph 11 is to measure assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) initially at fair value. Existing assets of the grantor used in the service concession arrangement are reclassified rather than recognized under this Standard. Only an upgrade to an existing asset of the grantor (e.g., that increases its capacity) is recognized as a service concession asset in accordance with paragraph 9, or paragraph 10 for a whole-of-life asset).

AG16. In applying the impairment tests in IPSAS 31 or IPSAS 45, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in IPSAS 31 or IPSAS 45, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is

transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 43.

AG18. When the service concession arrangement involves upgrading an existing asset of the grantor such that the future economic benefits or service potential the asset will provide are increased, the upgrade is assessed to determine whether it meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset). If those conditions are met, the upgrade is recognized and measured in accordance with this Standard.

Existing Asset of the Operator

AG19. The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired. If the arrangement involves an existing asset of the operator which the operator uses for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognizes the asset as a service concession asset and accounts for it in accordance with this Standard.

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognizes and measures the asset in accordance with this Standard. IPSAS 31 or IPSAS 45, as appropriate, set out the criteria for when a service concession asset should be recognized. Both IPSAS 31 and IPSAS 45 require that an asset shall be recognized if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The item can be measured reliably[2].

AG21. Those criteria, together with the specific terms and conditions of the binding arrangement, need to be considered in determining whether to recognize the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognize the service concession asset during that period.

AG22. The first recognition criterion requires the flow of economic benefits or service potential to the grantor. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the public sector grantor. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in IPSAS 31 or IPSAS 45, as appropriate, the grantor must have reliable information about the historical cost or current operational value or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the

[2] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in IPSAS 45 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of current value measurement basis on initial recognition does not constitute a revaluation under IPSAS 31 or IPSAS 45.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

(b) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in IPSAS 31 and IPSAS 45.

Types of Compensation

AG26. Service concession arrangements are rarely if ever the same; technical requirements vary by sector and by jurisdiction. Furthermore, the terms of the arrangement may also depend on the specific features of the overall legal framework of the particular jurisdiction. Contract laws, where they exist, may contain terms that do not have to be repeated in individual contracts.

AG27. Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) Making payments (e.g., cash) to the operator;

(b) Compensating the operator by other means, such as:

(i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) Granting the operator access to another revenue-generating asset for its use.

AG28. Where the grantor compensates the operator for the service concession asset by making payments to the operator, the asset and service components of the payments may be separable (e.g., the binding arrangement specifies the amount of the predetermined series of payments to be allocated to the service concession asset) or inseparable.

Separable Payments

AG29. A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

(a) Part of a payment stream that varies according to the availability of the service concession asset itself and another part that varies according to usage or performance of certain services are identified;

(b) Different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or

(c) Different components of the service concession arrangement can be renegotiated separately. For example, a service component is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

AG30. IPSAS 31 and IPSAS 45 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

Inseparable Payments

AG31. Where the asset and service component of payments by the grantor to the operator are not separable, the fair value in paragraph 11 is determined using estimation techniques.

AG32. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the service concession asset and those for other components of the service concession arrangement (e.g., maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to the fair value of a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph 44 of IPSAS 31 and paragraph 21 of IPSAS 45, as appropriate, provide guidance on these circumstances.

AG34. When the operator is granted the right to earn revenue from third-party users of the service concession asset, or another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the service concession asset. These forms of compensation to the operator are intended to compensate the operator both for the cost of the service concession asset and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph 11.

Subsequent Measurement

AG35. After initial recognition, a grantor applies IPSAS 31 and IPSAS 45 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21 and IPSAS 26 are also applied in considering whether

there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

Recognition and Measurement of Liabilities (see paragraphs 14–28)

AG36. The grantor recognizes a liability in accordance with paragraph 14 only when a service concession asset is recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset). The nature of the liability recognized in accordance with paragraph 14 differs in each of the circumstances described in paragraph AG25 according to its substance.

The Financial Liability Model (see paragraphs 18–23)

AG37. When the grantor has an unconditional obligation to make a predetermined series of payments to the operator, the liability is a financial liability as defined in IPSAS 41. The grantor has an unconditional obligation if it has little, if any, discretion to avoid the obligation usually because of the binding arrangement with the operator being enforceable by law.

AG38. When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, an amount reflecting the portion of the predetermined series of payments that pertains to the asset is recognized as a liability in accordance with paragraph 14. This liability does not include the finance charge and service components of the payments specified in paragraph 21.

AG39. Where the grantor makes any payments to the operator in advance of the service concession asset being recognized, the grantor accounts for those payments as prepayments.

AG40. The finance charge specified in paragraph 21 is determined based on the operator's cost of capital specific to the service concession asset, if this is practicable to determine.

AG41. If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, is used.

AG42. Where sufficient information is not available, the rate used to determine the finance charge may be estimated by reference to the rate that would be expected on acquiring a similar asset (e.g., a lease of a similar asset, in a similar location and for a similar term). The estimate of the rate should be reviewed together with:

(a) The present value of the payments;

(b) The assumed fair value of the asset; and

(c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.

AG43. In cases when the grantor takes part in the financing (e.g., by lending the operator the funds to construct, develop, acquire, or upgrade a service concession asset, or through guarantees), it may be appropriate to use the grantor's incremental borrowing rate to determine the finance charge.

AG44. The interest rate used to determine the finance charge may not be subsequently changed unless the asset component or the whole of the arrangement is renegotiated.

AG45. The finance charge related to the liability in a service concession arrangement is presented consistently with other finance charges in accordance with IPSAS 28, IPSAS 30, and IPSAS 41.

AG46. The service component of payments determined in accordance with paragraph 21 is ordinarily recognized evenly over the term of the service concession arrangement because this pattern of recognition best

corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognized as incurred.

Grant of a Right to the Operator Model (see paragraphs 24−26)

AG47. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset, the operator is granted the right to earn revenue over the period of the service concession arrangement. Likewise, the grantor earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement. Accordingly, the revenue is not recognized immediately. Instead, a liability is recognized for any portion of the revenue that is not yet earned. Revenue is recognized and the liability reduced in accordance with paragraph 25 based on the economic substance of the service concession arrangement, usually as access to the service concession asset is provided to the operator over the term of the service concession arrangement. As described in paragraph AG27, the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In such cases, if the operator's right to earn such third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g., the term over which the grantor's future predetermined series of payments are reduced or eliminated).

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognized and the liability recognized in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in IPSAS 31 or IPSAS 48, as appropriate.

AG49. In some cases under the grant of a right to the operator model, there may be a "shadow toll". Some shadow tolls are paid for the construction, development, acquisition, or upgrade of the service concession asset, and its operation by the operator. In cases where the grantor pays the operator solely for the usage of the service concession asset by third-party users, such payment is compensation in exchange for the usage and not the acquisition of the service concession asset. Accordingly, such payments do not relate to the liability specified in paragraph AG48. The grantor compensates the operator only to the extent of the usage of the service concession asset, and accounts for such payments as expenses in accordance with IPSAS 1.

Dividing the Arrangement (see paragraphs 27−28)

AG50. If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from third-party use of either the service concession asset or another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or another revenue-generating asset. Each portion of the liability is recognized initially at the fair value of the consideration paid or payable.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraph 29)

AG51. Service concession arrangements may include various forms of financial guarantees (e.g., a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development,

acquisition, or upgrade of a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for short-falls).

AG52. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract and applies IPSAS 28, IPSAS 30, and IPSAS 41 in accounting for the guarantee. Where the guarantee is an insurance contract, the grantor can elect to apply the relevant international or national accounting standard dealing with insurance contracts. See IPSAS 28, paragraphs AG3–AG9 for further guidance.

AG53. Guarantees and commitments that do not meet the requirements in IPSAS 28 and IPSAS 41 relating to financial guarantee contracts or are not insurance contracts are accounted for in accordance with IPSAS 19.

AG54. Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19.

Other Revenues (see paragraph 30)

AG55. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

(a) An upfront payment or a stream of payments;

(b) Revenue-sharing provisions;

(c) A reduction in a predetermined series of payments the grantor is required to make to the operator; and

(d) Rent payments for providing the operator access to a revenue-generating asset.

AG56. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with IPSAS 47, *Revenue*. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

AG57. Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to earn the revenue from third-party use of the service concession asset, or another revenue-generating asset, any portion of the payments received from the operator not earned in the accounting period is recognized as a liability until the conditions for revenue recognition are met.

AG58. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognized in accordance with paragraph 30.

AG59. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognizing revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset and/or the time value of money. For example, an annuity method that applies a compounding interest factor that more evenly recognizes revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for a service concession arrangement with a term extending over several decades.

AG60. When an upfront payment is received from the operator, the revenue is recognized in a way that best reflects the operator's economic consumption of its access to the service concession asset and/or the time value of money. For example, when the operator is required to pay annual installments over the term of the service

concession arrangement, or predetermined sums for specific years, the revenue is recognized over the specified term.

AG61. For service concession arrangements under which the operator is granted the right to earn revenue from third-party users of the service concession asset, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognized on the same basis as the liability is reduced. In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue-sharing as part of a service concession arrangement may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.

AG62. The grantor recognizes revenue generated from revenue-sharing provisions in service concession arrangements as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies IPSAS 19 to determine when the contingent event has occurred.

AG63. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognized as the liability is reduced.

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with IPSAS 47.

Presentation and Disclosure (see paragraphs 31−33)

AG65. Disclosures relating to various aspects of service concession arrangements may be addressed in existing Standards. This Standard addresses only the additional disclosures relating to service concession arrangements. Where the accounting for a particular aspect of a service concession arrangement is addressed in another Standard, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph 32.

AG66. IPSAS 1 requires finance costs to be presented separately in the statement of financial performance. The finance charge determined in accordance with paragraph 21 is included in this item.

AG67. In addition to the disclosures outlined in paragraphs 31−33, the grantor also applies the relevant presentation and disclosure requirements in other IPSAS as they pertain to assets, liabilities, revenues, and expenses recognized under this Standard.

Transition (see paragraphs 34−35)

AG68. [Deleted]

AG69. [Deleted]

AG70. [Deleted]

AG71. [Deleted]

AG72. [Deleted]

AG73. [Deleted]

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 32.

Objective

BC1. In the absence of an International Public Sector Accounting Standard dealing with service concession arrangements, public sector entities are directed, in IPSAS 1, *Presentation of Financial Statements* to look to other international or national accounting standards. In the case of arrangements involving private sector participation, they would try to apply the principles in Interpretation 12 of the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC 12), *Service Concession Arrangements*. However, IFRIC 12 addresses accounting by the operator, and does not, therefore, provide guidance for the grantor. The IPSASB believes this Standard will promote consistency and comparability in how service concession arrangements are reported by public sector entities.

Scope

BC2. After considering the various types of arrangements involving public and private sector entities identified in the development of the March 2008 Consultation Paper, *Accounting and Financial Reporting for Service Concession Arrangements*, the IPSASB concluded that the scope of this Standard should be the mirror of IFRIC 12, in particular, the criteria under which the grantor recognizes a service concession asset (see paragraphs BC11–BC16). The rationale for this decision is that this approach would require both parties to the same arrangement to apply the same principles in determining which party should recognize the asset used in a service concession arrangement. Thus, arrangements in which the criteria for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset) are not satisfied, are outside the scope of this IPSAS. The IPSASB considers that this approach minimizes the possibility for an asset to be accounted for by both of the parties, or by neither party.

BC3. The IPSASB recognized that the Standard should provide Implementation Guidance on the relevant IPSAS that apply to arrangements outside the scope of the Standard. The Implementation Guidance contains a flowchart illustrating the application of this Standard as well as a table of references to relevant IPSAS for the other types of arrangements that are outside the scope of this Standard.

BC4. The IPSASB concluded that it was important to provide guidance on accounting for the consideration given by the grantor to the operator for the service concession asset. The consideration may give the operator rights to a determinable series of payments of cash or cash equivalents or a right to earn revenue from third-party users of the service concession asset or another revenue-generating asset for its use, or a combination of both types of consideration. Each type of consideration results in specific accounting issues on which the IPSASB has provided guidance to facilitate consistent application of the Standard.

BC5. When this Standard was issued, the IPSASB had also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions).

BC6. This Standard does not specify the accounting by operators, because it is addressed in IFRIC 12. In many cases the operator is a private sector entity, and IPSAS are not designed to apply to private sector entities. The operator or the grantor may also be a [Government Business Enterprise (GBE)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016). When this Standard was issued, IPSAS were not designed to apply to GBEs. International Financial Reporting Standards (IFRS) were applied to private sector entities and GBEs.

BC7. Some respondents to ED 43 suggested that the scope of the proposed Standard should be extended to include public-to-public service concession arrangements. The IPSASB noted that addressing the accounting for such arrangements was not the primary purpose of the project which was to address the cases when the grantor is a public sector entity that follows accrual IPSAS. The IPSASB noted that application of this Standard by analogy would be appropriate under paragraphs 12−15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for the public sector grantor and that relevant international or national accounting standard dealing with service concession arrangements may be applied by the public sector operator

Definitions

BC8. ED 43 did not provide definitions because IFRIC 12 did not do so. Accordingly, ED 43 provided guidance on certain terminology. Respondents to ED 43 proposed that, because this is a Standard and not an Interpretation, it was important to include definitions for consistency in application of the Standard. The IPSASB agreed that this Standard should include definitions.

BC9. The IPSASB agreed not to use the term “infrastructure” to refer to the asset used in a service concession arrangement, even though IFRIC 12 uses the term. The IPSASB noted that the term is used in IPSAS in ways that may not be fully compatible with this Standard. Further, the term has a prescribed meaning in some jurisdictions that differs from that used in IFRIC 12. To ensure clarity that the asset referred to is the one recognized on the basis of the conditions for recognition in paragraph 9 of this Standard (or paragraph 10 for a whole-of-life asset), the asset in this Standard is referred to as the “service concession asset”. This term is intended to cover the same types of assets as envisaged in IFRIC 12.

BC10. The term “binding arrangement” had not been defined previously, but has been used in other IPSAS to describe arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract. The IPSASB concluded that for the purposes of this Standard, this term should be defined to ensure consistent application of the Standard.

Recognition of a Service Concession Asset

BC11. The main accounting issue in service concession arrangements is whether the grantor should recognize a service concession asset.

BC12. The IPSASB considered the merits of the risks and rewards and the control-based approach to assess whether the grantor should recognize the asset. The risks and rewards approach focuses on the economic aspects of the terms and conditions in the arrangement. The IPSASB did not believe this focus to be appropriate for service concession arrangements because the primary purpose of a service concession asset, from the grantor’s point of view, is to provide specified public services on behalf of the grantor using a service concession asset, and not to provide economic benefits such as revenue generated by such assets (e.g., from user fees). Thus, the service potential of the asset accrues to the grantor. Economic benefits are only likely to arise from a service concession arrangement in circumstances where the operator is granted the right to earn revenue from third-party users, of either the service concession asset or another revenue-generating asset. A control-based approach focuses on control over the economic benefits and the service potential of the service concession asset.

BC13. As it is often the case that service concession arrangements are entered into for the sharing of risks between the grantor and the operator, the IPSASB also questioned whether sufficiently objective criteria could be established for assessing risks and rewards to enable consistent results to be determined. In addition, weighting of various risks and rewards was seen to be problematic. The IPSASB concluded, therefore, that the risks and rewards approach is inappropriate.

BC14. The IPSASB also considered whether a rights and obligations approach was appropriate. Although such an approach could have conceptual merit, the IPSASB believes that it would represent a significant change in the accounting and financial reporting of assets and liabilities for public sector entities that could have implications beyond service concession arrangements. Given the IPSASB's decision to complement IFRIC 12, which uses a control-based approach, the IPSASB agreed that a rights and obligations approach was not appropriate for this Standard.

BC15. The IPSASB concluded that a control-based approach was the most effective means to determine whether the grantor should recognize the asset. The IPSASB concluded that if a control-based approach is used, it should be consistent with IFRIC 12, for the same reasons cited in paragraph BC2. Accordingly, this Standard addresses only arrangements in which the grantor (a) controls or regulates the services provided by the operator, and (b) controls any significant residual interest in the service concession asset at the end of the term of the arrangement. Consistent with IFRIC 12, in the case of whole-of-life assets, only condition (a) must be met for recognition of a service concession asset. The IPSASB concluded that it was important to stress that a service concession arrangement is a binding arrangement. Accordingly, the assessment of whether a service concession asset should be recognized is made on the basis of all of the facts and circumstances of the arrangement.

BC16. Paragraph 9(a) of this Standard is consistent with paragraph 5 of IFRIC 12. It is intended to apply only to the regulation that is specific to the service concession arrangement, and not to the broad understanding of public sector regulatory powers from the grantor's point of view. The regulation referred to in paragraph 9(a) of this Standard is either by contract or through a regulator. Guidance is provided in paragraph AG6 on applying the term "regulates" in paragraph 9(a) to determine whether the grantor should recognize a service concession asset. Some respondents to ED 43 asserted that providing such additional guidance creates an asymmetry with IFRIC 12, as there is no additional guidance on the meaning of this term. The IPSASB considers the additional guidance provided in paragraph AG6 is necessary to ensure symmetry exists between the public sector grantor's and the private sector operator's application of the "regulates" criterion in determining whether to recognize the service concession asset, as the public sector may have considered the term in the context of the broad regulatory powers of governments.

Recognition of a Liability

BC17. ED 43 described two circumstances that may give rise to a liability when the grantor recognizes a service concession asset, based on the nature of the consideration due to the operator in exchange for the service concession asset.

BC18. ED 43 proposed that when the grantor recognizes a service concession asset, a liability shall also be recognized. The ED noted that this liability may be any combination of a financial liability and a performance obligation. ED 43 proposed that a financial liability occurs when the grantor has a determinable series of cash payments of cash or cash equivalents to make to the operator and a performance obligation occurs when the grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. ED 43 proposed that the grantor account for the performance obligation in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

BC19. Respondents to ED 43 sought clarification on this issue, particularly with respect to the "performance obligation" identified in ED 43. Respondents' concerns are summarized below.

(a) The right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset was seen by some respondents as independent of the compensation for the asset. These respondents highlighted that the requirement to provide access is a feature of most

service concession arrangements, and if this is to be recognized, such recognition should not be dependent on the non-occurrence of a payment stream from the grantor to the operator.

(b) While being described as a performance obligation, there is no obligation for an outflow of economic resources from the grantor in future periods. These respondents therefore question whether a liability as defined in IPSAS 1, or a provision as defined in IPSAS 19 could be fairly represented to exist.

BC20. In addition, a number of other respondents, possibly as a result of the above concerns, requested clarification of the meaning of "performance obligation" in the ED. A few of these respondents queried whether the substance of the nature of this "balancing item" was deferred revenue.

BC21. The IPSASB agreed that clarification of this issue was required. When this Standard was developed, the IPSASB noted that using the term "performance obligation" could give rise to confusion because it was used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions.

BC22. In IFRIC 12, when the operator does not control the service concession asset, the operator recognizes either a financial asset, or an intangible asset, depending on which party bears the demand risk. The IPSASB agreed that, to maintain symmetry with IFRIC 12, the same approach should be adopted for the grantor. Thus, two models are identified for accounting for the credit when the grantor recognizes a service concession asset in accordance with this Standard: the financial liability model, and the grant of a right to the operator model (which replaces the "performance obligation").

BC23. The IPSASB's decision to amend the terminology used in ED 43 from "performance obligation" to the Standard's use of "liability" does not change the grantor's accounting treatment of a service concession arrangement from that proposed in ED 43.

The Financial Liability Model

BC24. Where the grantor compensates the operator by the delivery of cash or another financial asset in exchange for its control of a service concession asset, IFRIC 12 classifies this type of arrangement as the "financial asset model" because the operator receives a financial asset. This Standard refers to this type of arrangement as the "financial liability model" because the grantor has a financial liability.

BC25. A financial liability arises in cases when the grantor is obligated to make a determinable series of payments to the operator because the grantor has an obligation as a result of the binding arrangement to deliver cash or another financial asset to another entity (the operator). The IPSASB concluded further that when there is a determinable series of payments of cash or cash equivalents, the payments should be allocated as a reduction of the liability, an imputed finance charge, and charges for services provided by the operator under the service concession arrangement.

BC26. Service concession arrangements are concluded by way of a binding arrangement, which may include contracts or similar arrangements that confer similar rights and obligations on the parties as if they were in the form of a contract. The IPSASB concluded that, if similar arrangements exist that confer the same rights and obligations on either party as if they were in the form of a contract, IPSAS 28, *Financial Instruments: Presentation*, IPSAS 30, *Financial Instruments: Disclosures, and IPSAS 41, Financial Instruments* should be applied by analogy to such arrangements.

BC27. In considering a departure from this aspect of IFRIC 12, the IPSASB noted that the main features of IFRIC 12 that were the subject of the "mirror" approach to developing this Standard were limited to the scope of the arrangements to be included and the recognition and disclosure requirements.

BC28. IFRIC 12 requires the financial asset to be accounted for in accordance with the IFRS on financial instruments. This Standard provides guidance for determining the interest rate to be used to determine the finance charge under the financial liability model. The IPSASB considered the grantor ordinarily would not have sufficient information to determine a market rate. Accordingly, the guidance requires the operator's cost of capital to be used, if that is practicable to determine. It also permits other rates to be used appropriate to the specific terms and conditions of the service concession arrangement.

Grant of a Right to the Operator Model

BC29. In responding to the issues raised by respondents to ED 43, the IPSASB had reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB had noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the IPSASB had referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue.

BC30. Where the operator bears the demand risk, the grantor compensates the operator by the grant of a right (e.g., a license) to charge users of the public service related to the service concession asset or of another revenue-generating asset. The grantor provides the operator access to the asset in order for the operator to be compensated for construction, development, acquisition, or upgrade of the service concession asset. IFRIC 12 classifies this type of arrangement as the "intangible asset model." This Standard refers to this type of arrangement as the "grant of a right to the operator model."

BC31. The IPSASB therefore had considered whether the credit should be accounted for as a liability, as a direct increase to net assets/equity, or as revenue.

BC32. The IPSASB had agreed that, in this circumstance, the grantor does not have a liability because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC33. Some respondents to ED 43 had indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

(a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;

(b) Accumulated surpluses or deficits;

(c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and

(d) Non-controlling interests.

BC34. The IPSASB had concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

(a) Contributions from owners are defined as "future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the

entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed." The credit related to the recognition of a service concession asset does not meet this definition because the operator has not made a contribution to the grantor that results in a financial interest in the entity by the operator as envisaged by IPSAS 1.

(b) Accumulated surplus/deficit is an accumulation of an entity's surpluses and deficits. The credit related to recognition of a service concession asset represents an individual transaction and not an accumulation.

(c) Reserves generally arise from items recognized directly in net assets/equity from specific requirements in IPSAS, and may include, for example, gains and losses on revaluation of assets (e.g., property, plant, and equipment, investments). The credit related to the recognition or reclassification of a service concession asset does not represent a gain or loss specified to be directly recognized in net/assets equity because it involves an exchange transaction and not a revaluation of an existing asset of the grantor. Existing assets of the grantor, when used in a service concession arrangement and continue to meet the control criteria in this Standard, are reclassified, thus no revaluation is done.

(d) A non-controlling interest is defined as "that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity." A non-controlling interest may arise, for example, when at the whole-of-government level, the economic entity includes a commercial public sector entity that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity. The credit related to the recognition of a service concession asset does not meet this definition because operator does not have such a financial interest in the grantor.

BC35. When this Standard was issued, the IPSASB had agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC36. When this Standard was issued, the IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result was consistent with IPSAS 9 in which an entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues.

BC37. When this Standard was issued, the revenue was measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received could not be measured reliably, the revenue was measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

BC38. When this Standard was issued, IPSAS 9 had identified three types of transactions that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of

the entity's assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB had considered these types of transactions separately.

BC39. The IPSASB had considered the approaches to revenue recognition set out in IPSAS 9 in relation to the "grant of a right to the operator" model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB had noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB had determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC40. The IPSASB had considered whether the grantor should recognize the operating expenses in the circumstances described in paragraph BC30 relating to the grant of a right to the operator model. The IPSASB noted that the grantor's liability recognized relates solely to the service concession asset received by the grantor. If the service expenses were recognized, the grantor would also have to recognize annually imputed revenue equal to the annual expense. The IPSASB did not believe this accounting would provide useful information, because revenue and an expense of equal amounts would be recognized annually. The IPSASB noted further that reliable information about the operator's expenses may not be available in any case. The IPSASB therefore concluded that the grantor should not recognize operating expenses associated with the service concession arrangement in the circumstances described in paragraph BC30.

Accounting Issues Addressed in Other IPSAS

BC41. Because of the complexity of many service concession arrangements, there may be additional accounting issues related to certain terms in the contract, or a similar binding arrangement (e.g., revenues, expenses, guarantees, and contingencies). The IPSASB agreed that it was not necessary to repeat such existing guidance in this Standard. Accordingly, when an existing IPSAS specifies the accounting and reporting for a component of a service concession arrangement, that IPSAS is referred to in this Standard and no additional guidance is provided. However, the IPSASB noted some cases (e.g., revenue recognition), when the application of such IPSAS would be difficult given certain unique features in service concession arrangements. To ensure consistent implementation of this Standard, the IPSASB provided specific guidance on how the principles in the other IPSAS would be applied.

Transition

BC42. This Standard requires an entity that has previously recognized service concession assets and related liabilities, revenues, and expenses to apply this Standard retrospectively in accordance with IPSAS 3. The Standard also requires an entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting to apply this Standard either retrospectively or prospectively using deemed cost from the beginning of the earliest period for which comparative information is presented in the financial statements.

BC43. The general requirement in IPSAS 3 is that the changes should be accounted for retrospectively, except to the extent that retrospective application would be impracticable. The IPSASB noted that there are two aspects to retrospective determination: reclassification and remeasurement. The IPSASB took the view that it will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in a grantor's statement of financial position, but that retrospective remeasurement of service concession assets might not always be practicable, particularly if an entity has not previously recognized service concession assets and related liabilities, revenues, and expenses.

BC44. The IPSASB noted that, when retrospective restatement is not practicable, IPSAS 3 requires prospective application from the earliest practicable date, which could be the start of the current reporting period.

BC45. The transitional provisions in this Standard for entities that have not previously recognized service concession assets were amended from ED 43 because some respondents to ED 43 questioned why the general requirement in IPSAS 3 is not also appropriate for an entity that has not previously recognized service concession arrangements. ED 43 required prospective application in such cases, but permitted retrospective application.

BC46. When developing ED 43 the IPSASB had concerns relating to the practicality of determining the measurement of a service concession asset, and considered that this could result in inconsistent treatment of arrangements entered into in the past. This was a similar issue to that which arose in finalizing IPSAS 31, *Intangible Assets*. On that basis, the IPSASB considered it appropriate to propose transitional provisions in ED 43 that were consistent with those in IPSAS 31.

BC47. However, the IPSASB noted that the circumstances surrounding intangible assets differ from those in service concession arrangements. Notably, service concession arrangements generally involve long-term binding arrangements for which information required to develop fair value and cost information would likely be more readily available than it is for intangible assets acquired or developed in the past, even in cases where an entity had not previously recognized service concession assets.

BC48. The IPSASB did however acknowledge that because many of these arrangements may have been entered into some time ago, it may be difficult to apply full retrospective application. As a result, the IPSASB considered that a "deemed cost" could be used to recognize and measure service concession assets.

Revision of IPSAS 32 as a result of Part II of Improvements *to IPSAS 2015*: issues raised by stakeholders

BC49. When this Standard was issued, the IPSASB had its attention drawn to a possible inconsistency between the requirements in IPSAS 32 and the requirements in IPSAS 17 and IPSAS 31. The requirements in IPSAS 32 could have been seen as requiring service concession assets to be presented as a single class of assets, even if they were of a dissimilar nature and function. As it was not the intention of the IPSASB to require that dissimilar assets be reported as if they were similar, the IPSASB had decided to propose clarifications to IPSAS 32 to make its intentions clear. The IPSASB had considered whether these changes would reduce the information available to users, but was satisfied that the then current disclosure requirements, in particular those in paragraph 32, would ensure high quality disclosures about assets subject to service concession arrangements. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

BC50. The IPSASB had noted that the reclassification of service concessions assets could require a change in measurement basis for some entities. For example, some service concession assets measured using the revaluation model, might have been reclassified into a class of assets measured using the cost model. Equally, some service concession assets that were measured using the cost model, might have been reclassified into a class of assets measured using the revaluation model. Because the balance between the service concession assets and the other assets in a class will vary from entity to entity, the IPSASB had agreed to permit entities to select the measurement basis to be applied at the point of reclassification. The IPSASB had also noted that the information required to retrospectively apply the cost model might not have been readily available. Consequently, the IPSASB had agreed to permit entities to use the carrying amounts determined under the revaluation model as deemed cost at the point of reclassification where an entity elected to measure a class of assets using the cost model. In developing IPSAS 45, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45, while the cost model in IPSAS 17 is labeled the historical cost model.

Revision of IPSAS 32 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC51. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

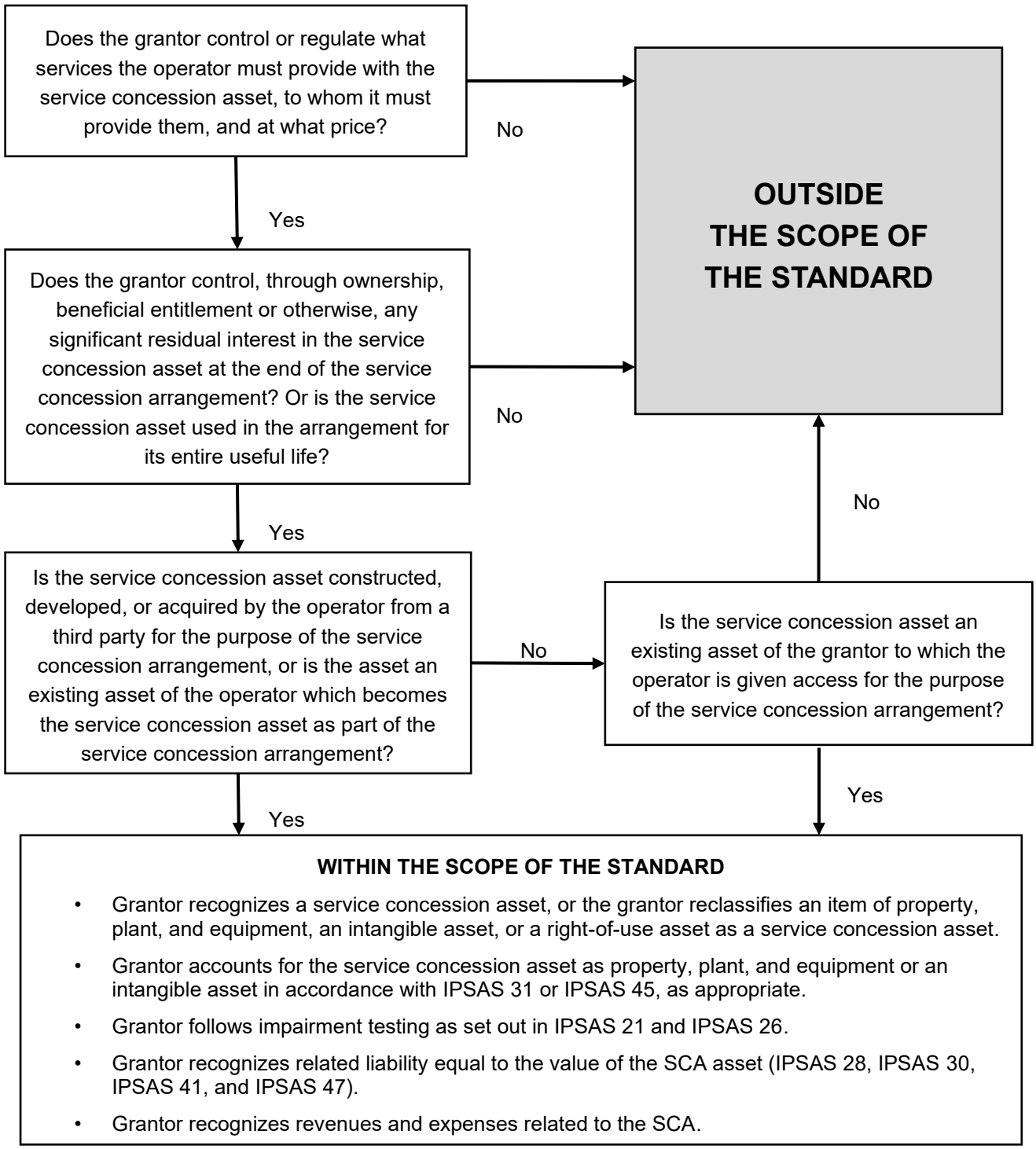
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 32.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 32.

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarizes the accounting for service concession arrangements established by IPSAS 32.



References to IPSAS that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

IG3. The table sets out the typical types of arrangements for private sector participation in the provision of public sector services and provides references to IPSAS that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements. It is not the IPSASB's intention to convey the impression that bright lines exist between the accounting requirements for various types of arrangements.

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

Category	**Lessee**	**Service provider**			**Owner**	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate- transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatization / Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by binding arrangement or license)
Residual interest	Grantor				Operator	
Relevant IPSAS	IPSAS 43	IPSAS 1	This IPSAS/IPSAS 31/ IPSAS 45		IPSAS 31/IPSAS 45 (derecognition) IPSAS 47 (revenue recognition)	

Illustrative Examples

These examples accompany, but are not part of, IPSAS 32.

IE1. These examples deal with only three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

Arrangement Terms (Common to All Three Examples)

IE2. In these examples, monetary amounts are denominated in "currency units" (CU).

IE3. These terms are common to the three examples that follow:

IE4. The terms of the arrangement require an operator to construct a road—completing construction within two years—and maintain and operate the road to a specified standard for eight years (i.e., years 3–10). The arrangement is within the scope of this Standard and the road meets the conditions for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset).

IE5. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in IPSAS 45, *Property, Plant, and Equipment* when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs.33 It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base, and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base (substructure) is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

IE7. Recognition of the replacement component of the road surface as a separate component of the service concession asset in year 8 also results in an increase in the liability recognized by the grantor. Where the liability relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognized evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it would be appropriate to instead recognize revenue relevant to that improvement only once it has occurred.

IE8. At the beginning of year 3, the total fair value of the road is CU1,050, comprised of CU940 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value of the

[3] If this was not the case (e.g., where the operator might resurface in future, or might incur additional maintenance over the period of the service concession arrangement), it might not be appropriate to recognize a component.

surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with IPSAS 45). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

IE9. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore CU38 (940/25) for the base layers. The surface layers are depreciated over 6 years (years 3–8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is CU18 (CU110/6). There is no impairment in the value of the road over the term of the service concession arrangement.

IE10. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.

IE11. It is assumed that all cash flows take place at the end of the year.

IE12. It is assumed that the time value of money is not significant. Paragraph AG59 provides guidance on methods that may be appropriate where the time value of money is significant.

IE13. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the operation of the road to the grantor.

IE14. The total compensation to the operator under each of the three examples is inclusive of each of the components of the service concession arrangement and reflects the fair values for each of the services, which are set out in Exhibit 1.

IE15. The grantor's accounting policy for property, plant, and equipment is to recognize such assets using the historical cost model specified in IPSAS 45.

Exhibit 1: Fair Values of the Components of the Arrangement (Currency Units)

Arrangement Component	**Fair Value**
Road – base layers (substructure)	940
Road – original surface layers	110
Total FV of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

Additional Terms

IE16. The terms of the arrangement require the grantor to pay the operator CU200 per year in years 3–10 for making the road available to the public. The total consideration (payment of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE17. The grantor initially measures the service concession asset as property, plant, and equipment at its fair value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to

construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers), starting from year 3.

IE18. The grantor initially recognizes a financial liability at fair value equal to the fair value of the asset under construction at the end of year 1 (CU525). The liability is increased at the end of year 2 to reflect both the fair value of the additional construction (CU525) and the finance charge on the outstanding financial liability. Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE19. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE20. The compensation for maintenance and operating the road (CU12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognizes an expense annually.

IE21. The costs of services are accounted for in accordance with IPSAS 1.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE22. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

Table 1.1 Cash Flows (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table 1.2 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)

Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/ (deficit)	–	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
2. Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 57 of IPSAS 45 requires that, "The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity." Likewise, for intangible assets, paragraph 96 of IPSAS 31 requires that, "The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life."

Table 1.3 Statement of Financial Position (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/deficit	–	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 1.4 Changes in Financial Liability (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	525	1,082	961	832	695	550	396	343	177
Liability recognized along with initial service concession asset	525	525	–	–	–	–	–	–	–	–
Finance charge added to liability prior to payments being made	–	32	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	525	1,082	961	832	695	550	396	343	177	–

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE23. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU200 in each of years 3–10. The total consideration (tolls of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1, and is intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE24. The grantor initially recognizes the service concession asset as property, plant, and equipment at its fair value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers, starting in year 3).

IE25. As consideration for the service concession asset, the grantor recognizes a liability under the grant of a right to the operator model for granting the operator the right to collect tolls of CU200 in years 3–10. The liability is recognized as the asset is recognized.

IE26. The liability is reduced over years 3–10, and the grantor recognizes revenue on that basis because access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement from the point at which the asset is capable of providing economic benefits.

IE27. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE28. The compensation for maintenance and operating the road (CU12) is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash outflow. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE29. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 2.1 to 2.2. In addition, Table 2.3 shows the changes in the liability.

Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

Table 2.1 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	–	–	145	145	145	145	145	145	145	145	1160
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)
Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	–	–	89	88	89	89	88	89	89	88	709

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.3).
4. All revenue is recognized evenly over the term of the arrangement.

Table 2.2 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	–	–	–	–	–	–	–	–
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	–
Cumulative surplus/deficit	–	–	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 2.2).
3. The liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 2.3 Changes in Liability (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	525	1,050	905	760	615	470	325	290	145
Liability recognized along with initial service concession asset	525	525	–	–	–	–	–	–	–	–
Revenue (reduction of liability)	–	–	(145)	(145)	(145)	(145)	(145)	(145)	(145)	(145)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	525	1,050	905	760	615	470	325	290	145	–

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement *Terms*

IE31. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU100 in each of years 3–10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of CU100 annually. The fair value of the right to collect

tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).

Financial Statement Impact

IE32. The grantor initially recognizes the service concession asset as property, plant, and equipment at its fair value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers).

IE33. As consideration for the service concession asset, the grantor recognizes both a liability under the grant of a right to the operator model by granting the operator the right to collect tolls of CU100 in years 3–10, and a financial liability to make payments of CU100 in years 3–10. A liability and a financial liability are recognized as the asset is recognized at the end of year 1 (CU525). The liability and financial liability are increased at the end of year 2 to reflect both the fair value of the additional construction (CU525) and the finance charge on the outstanding financial liability.

IE34. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore in this arrangement it is necessary to divide the grantor's consideration to the operator into two parts—a liability and a financial liability.

IE35. The liability of CU525 (recognized evenly at the end of years 1 and 2) is reduced over years 3–10, and the grantor recognizes revenue on the same basis because the tolls are expected to be earned evenly over the term of the service concession arrangement from the point at which the asset is capable of providing service benefits.

IE36. The grantor initially recognizes a financial liability at fair value equal to half of the fair value of the asset (CU525), recognized evenly at the end of years 1 and 2; a liability under the grant of a right to the operator model is recognized in an amount equal to the other half of the fair value of the asset. The financial liability is also increased at the end of year 2 by the finance charge on the outstanding financial liability. Because the amount of the predetermined payments related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE37. The operator is compensated for the road resurfacing (CU110) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the series of predetermined payments (i.e., 50% from each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU 110/6 = CU 18, beginning in year 9.

IE38. The operator is compensated for maintenance and operating the road (CU12) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the predetermined payment (i.e., 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognizes an expense annually for the portion of the compensation related to the series of predetermined payments (CU6). There is no financial statement impact for the remaining CU6 of this service expense. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

IE39. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the liability and Table 3.5 shows the changes in the financial liability.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

Table 3.1 Cash Flows (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/ (outflow)	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

Table 3.2 Statement of Financial Performance (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	–	–	73	72	73	72	73	72	73	72	580
Service expense	–	–	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	–	(16)	(33)	(30)	(26)	(22)	(17)	(12)	(11)	(5)	(172)
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)
Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	–	(16)	(22)	(21)	(15)	(12)	(7)	(2)	–	4	(91)

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 3.3).
4. All revenue is recognized evenly over the term of the arrangement.

Table 3.3 Statement of Financial Position (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	–
Financial liability	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	–
Cumulative surplus/deficit	–	16	38	59	74	86	93	95	95	91

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 45 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 3.2).
3. The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.
4. The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Table 3.4 Changes in Liability (Currency Units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	262	525	452	380	307	235	162	145	72
Liability recognized along with initial service concession asset	262	263	–	–	–	–	–	–	–	–
Revenue (reduction of liability)	–	–	(73)	(72)	(73)	(72)	(73)	(72)	(73)	(72)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–

Balance carried forward	262	525	452	380	307	235	162	145	72	–

Table 3.5 Changes in Financial Liability (Currency Units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	–	263	541	480	416	348	276	199	172	89
Liability recognized along with initial service concession asset	263	262	–	–	–	–	–	–	–	–
Finance charge added to liability prior to payments being made	–	16	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(61)	(64)	(68)	(72)	(77)	(82)	(83)	(89)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–
Balance carried forward	263	541	480	416	348	276	199	172	89	–

IPSAS 33, *FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* was issued in January 2015.

Since then, IPSAS 33 has been amended by the following IPSAS Accounting Standards:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- *Stripping Costs in the Production Phase of a Surface Mine* (issued November 2024)
- IPSAS 50, *Exploration for and Evaluation of Mineral Resources* (issued November 2024)
- IPSAS 48, *Transfer Expenses* (issued May 2023)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued* Operations (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS* 2021 (issued January 2022)
- *COVID-19: Deferral of Effective* Dates (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- IPSAS 42, *Social Benefits* (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)

Table of Amended Paragraphs in IPSAS 33

Paragraph Affected	How Affected	Affected By
7	Deleted	*The Applicability of IPSAS* April 2016
8	Deleted	*The Applicability of IPSAS* April 2016
9	Amended	IPSAS 46 May 2023
32	Amended	IPSAS 47 May 2023
36	Amended	IPSAS 39 July 2016

Paragraph Affected	How Affected	Affected By
		IPSAS 41 August 2018 IPSAS 42 January 2019 IPSAS 43 January 2022 IPSAS 45 May 2023
39	Amended	*Improvements to IPSAS* April 2016
41	Amended	IPSAS 47 May 2023
41A	New	IPSAS 46 May 2023
41B	New	IPSAS 48 May 2023
Heading above paragraph 42	Amended	IPSAS 47 May 2023
42	Amended	IPSAS 47 May 2023
43	Amended	IPSAS 47 May 2023
Heading above paragraph 43A	New	IPSAS 48 May 2023
43A	New	IPSAS 48 May 2023
43B	New	IPSAS 48 May 2023
Heading above paragraph 46	Amended	IPSAS 43 January 2022
46	Amended	IPSAS 43 January 2022
47	Amended	IPSAS 43 January 2022
48	Amended	IPSAS 45 May 2023
49	Amended	IPSAS 45 May 2023
62A	New	IPSAS 40 January 2017
62B	New	IPSAS 40 January 2017
62C	New	IPSAS 40 January 2017
62D	New	IPSAS 50 November 2024
62E	New	IPSAS 50 November 2024
62F	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
62G	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
62H	New	IPSAS 51 January 2026
62I	New	IPSAS 51 January 2026
64	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
		IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 46 May 2023
64A	New	IPSAS 46 May 2023
65	Amended	IPSAS 46 May 2023
66	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
67	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
68	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
69	Amended	IPSAS 46 May 2023
70	Amended	IPSAS 46 May 2023
71	Amended	IPSAS 46 May 2023
72	Amended	IPSAS 41 August 2018 IPSAS 46 May 2023
78	Amended	*Improvements to IPSAS* October 2018
79	Amended	*Improvements to IPSAS* October 2018
85A	New	*Improvements to IPSAS* October 2018
85B	New	*Improvements to IPSAS* January 2022
86	Amended	IPSAS 40 January 2017
Heading above paragraph 95	Amended	IPSAS 43 January 2022
95	Amended	IPSAS 43 January 2022
96	Deleted	IPSAS 43 January 2022
96A	New	IPSAS 43 January 2022
96B	New	IPSAS 43 January 2022 IPSAS 46 May 2023
96C	New	IPSAS 43 January 2022
96D	New	IPSAS 43 January 2022
102	Amended	IPSAS 39 July 2016
104	Amended	IPSAS 39 July 2016

Paragraph Affected	How Affected	Affected By
105	Amended	IPSAS 39 July 2016
106	Deleted	IPSAS 39 July 2016
107	Deleted	IPSAS 39 July 2016
Heading above paragraph 113	Amended	IPSAS 41 August 2018
113	Amended	*Improvements to IPSAS* January 2020 IPSAS 41 August 2018
113A	New	*Improvements to IPSAS* January 2020
114	Deleted	*Improvements to IPSAS* January 2020
114A	New	IPSAS 41 August 2018
115	Amended	IPSAS 41 August 2018
116	Amended	IPSAS 41 August 2018
117	Amended	IPSAS 41 August 2018
118	Amended	IPSAS 41 August 2018
119	Amended	IPSAS 41 August 2018
119A	New	IPSAS 41 August 2018
119B	New	IPSAS 41 August 2018
119C	New	IPSAS 41 August 2018
119D	New	IPSAS 41 August 2018
120	Amended	IPSAS 41 August 2018
122	Amended	IPSAS 41 August 2018
122A	New	IPSAS 41 August 2018
122B	New	IPSAS 41 August 2018
122C	New	IPSAS 41 August 2018
Heading above paragraph 122D	New	IPSAS 41 August 2018
122D	New	IPSAS 41 August 2018
123	Amended	*Improvements to IPSAS* October 2018
124	Amended	IPSAS 41 August 2018
129	Amended	IPSAS 40 January 2017 IPSAS 45 May 2023
130	Amended	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
Heading above paragraph 131A	New	IPSAS 44 May 2022
131A	New	IPSAS 44 May 2022
132	Amended	IPSAS 40 January 2017
Heading above paragraph 134A	New	IPSAS 42 January 2019
134A	New	IPSAS 42 January 2019
134B	New	IPSAS 42 January 2019
142	Amended	*Improvements to IPSAS* October 2018
Heading above paragraph 148	Amended	IPSAS 43 January 2022
148	Amended	IPSAS 43 January 2022 IPSAS 46 May 2023
152A	New	IPSAS 46 May 2023
152B	New	IPSAS 46 May 2023
152C	New	IPSAS 46 May 2023
152D	New	IPSAS 46 May 2023
152E	New	IPSAS 46 May 2023
152F	New	IPSAS 46 May 2023
154A	New	*The Applicability of IPSAS* April 2016
154B	New	IPSAS 39 July 2016
154C	New	IPSAS 40 January 2017
154D	Amended	*COVID-19: Deferral of Effective Dates* November 2020
154E	New	*Improvements to IPSAS* October 2018
154F	New	*Improvements to IPSAS* October 2018
154G	Amended	*COVID-19: Deferral of Effective Dates* November 2020
154H	Amended	*COVID-19: Deferral of Effective Dates* November 2020
154I	New	*Improvements to IPSAS* January 2022
154J	New	IPSAS 43 January 2022
154K	New	IPSAS 44 May 2022
154L	New	IPSAS 45 May 2023
154M	New	IPSAS 46 May 2023
154N	New	IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
154O	New	IPSAS 48 May 2023
154P	New	IPSAS 50 November 2024
154Q	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
154R	New	IPSAS 51 January 2026
IG14	Amended	IPSAS 45 May 2023
IG20	Amended	IPSAS 43 January 2022
IG21	Amended	IPSAS 43 January 2022
IG22	Amended	IPSAS 45 May 2023
IG23	Amended	IPSAS 45 May 2023
IG29	Amended	*Improvements to IPSAS* October 2018
IG35	Amended	*Improvements to IPSAS* October 2018
IG39	Amended	*Improvements to IPSAS* January 2020
IG42	Amended	IPSAS 46 May 2023
Heading above paragraph IG45	Amended	IPSAS 47 May 2023
IG45	Amended	IPSAS 47 May 2023
IG51	Amended	IPSAS 43 January 2022
Heading above paragraph IG52	Amended	IPSAS 43 January 2022
IG52	Amended	IPSAS 43 January 2022
Heading above paragraph IG53	Amended	IPSAS 45 May 2023
IG53	Amended	IPSAS 45 May 2023
IG54	Amended	IPSAS 45 May 2023
IG55	Amended	IPSAS 45 May 2023
IG56	Amended	IPSAS 45 May 2023
IG57	Amended	IPSAS 45 May 2023
IG58	Amended	IPSAS 45 May 2023
Heading above paragraph IG67	Amended	IPSAS 41 August 2018
IG67	Amended	IPSAS 41 August 2018
IG68	Amended	IPSAS 41 August 2018
IG69	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
IG70	Amended	IPSAS 41 August 2018
IG71	Amended	IPSAS 41 August 2018
IG74	Amended	IPSAS 41 August 2018
Heading above paragraph IG89A	New	IPSAS 48 May 2023
IG89A	New	IPSAS 48 May 2023
IG91	Amended	IPSAS 41 August 2018 *Improvements to IPSAS* October 2018 IPSAS 42 January 2019 IPSAS 43 January 2022 IPSAS 45 May 2023 IPSAS 47 May 2023 IPSAS 48 May 2023
Appendix	Amended	IPSAS 41 August 2018 IPSAS 45 May 2023 IPSAS 47 May 2023

IPSAS 33, *FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)*

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Appendix A: Amendments to Other IPSAS

Basis for Conclusions

Implementation Guidance

International Public Sector Accounting Standard 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* is set out in paragraphs 1–154. All the paragraphs have equal authority. IPSAS 33 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to provide guidance to a first-time adopter that prepares and presents financial statements following the adoption of accrual basis IPSAS, in order to present high quality information:

   (a) That provides transparent reporting about a first-time adopter's transition to accrual basis IPSAS;

   (b) That provides a suitable starting point for accounting in accordance with accrual basis IPSAS irrespective of the basis of accounting the first-time adopter has used prior to the date of adoption; and

   (c) Where the benefits are expected to exceed the costs.

Scope

2. **An entity shall apply this IPSAS when it prepares and presents its annual financial statements on the adoption of, and during the transition to, accrual basis IPSAS.**

3. This IPSAS applies when an entity first adopts accrual basis IPSAS and during the transitional period allowed in this IPSAS. It does not apply when, for example, a first-time adopter:

   (a) Stops presenting financial statements in accordance with prescribed requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with accrual basis IPSAS;

   (b) Presented financial statements in the previous reporting period in accordance with prescribed requirements and those financial statements contained an explicit and unreserved statement of compliance with accrual basis IPSAS; or

   (c) Presented financial statements in the previous reporting period that contained an explicit and unreserved statement of compliance with accrual basis IPSAS, even if the auditors modified their audit report on those financial statements.

4. This Standard shall be applied from the date on which a first-time adopter adopts accrual basis IPSAS and during the period of transition. This Standard permits a first-time adopter to apply transitional exemptions and provisions that may impact fair presentation. Where these transitional exemptions and provisions are applied, a first-time adopter is required to disclose information about the transitional exemptions and provisions adopted, and progress towards fair presentation and compliance with accrual basis IPSAS.

5. At the end of the transitional period a first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS in order to assert compliance with accrual basis IPSAS as required in IPSAS 1, *Presentation of Financial Statements*.

6. This IPSAS does not apply to changes in accounting policies made by an entity that already applies IPSAS. Such changes are the subject of:

   (a) Requirements on changes in accounting policies in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

   (b) Specific transitional requirements in other IPSAS. The transitional provisions in other IPSAS apply only to changes in accounting policies made by an entity that already applies accrual basis IPSAS; they do not apply to a first-time adopter's transition to IPSAS, except as specified in this IPSAS.

7. [Deleted]

8. [Deleted]

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

Date of adoption of IPSAS is the date an entity adopts accrual basis IPSAS for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

First IPSAS financial statements are the first annual financial statements in which an entity complies with the accrual basis IPSAS and can make an explicit and unreserved statement of compliance with those IPSAS because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.

First-time adopter is an entity that adopts accrual basis IPSAS for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

Opening statement of financial position is a first-time adopter's statement of financial position at the date of adoption of IPSAS.

Period of transition is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSAS, and before it is able to make an explicit and unreserved statement of such compliance with IPSAS.

Previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSAS.

Transitional IPSAS financial statements are the financial statements prepared in accordance with this IPSAS where a first-time adopter cannot make an explicit and unreserved statement of compliance with other IPSAS because it adopted one or more of the transitional exemptions in this IPSAS that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Date of Adoption of IPSAS

10. The date of adoption of IPSAS is the date that an entity adopts accrual basis IPSAS for the first time. It is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which it presents its first transitional IPSAS financial statements or its first IPSAS financial statements. If a first-time adopter takes advantage of the exemptions in this IPSAS that affect fair presentation and compliance with accrual basis IPSAS (see paragraphs 36–62) in producing its first transitional IPSAS financial statements, it can only make an explicit and unreserved statement of compliance with accrual basis IPSAS when the exemptions that provided the relief have expired, and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier). Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of all the applicable IPSAS.

First IPSAS Financial Statements

11. An entity's first IPSAS financial statements are the first annual financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis IPSAS. If a first-time adopter does not adopt the exemptions in this IPSAS that affect fair

presentation and compliance with accrual basis IPSAS (see paragraphs 36–62), its first financial statements following the adoption of accrual basis IPSAS will also be its first IPSAS financial statements.

Previous Basis of Accounting

12. The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSAS. This might be a cash basis of accounting, an accrual basis of accounting, a modified version of either a cash basis or an accrual basis of accounting, or another prescribed basis.

Transitional IPSAS Financial Statements

13. An entity's transitional IPSAS financial statements are the annual financial statements in which an entity transitions to accrual basis IPSAS and adopts certain exemptions in this IPSAS that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS. If a first-time adopter adopts the exemptions in this IPSAS that affect fair presentation and compliance with accrual basis IPSAS (see paragraphs 36–62), it will not be able to make an explicit and unreserved statement of compliance with other accrual basis IPSAS until the exemptions that provided the relief in this IPSAS have expired and/or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSAS (whichever is earlier). Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of all the applicable IPSAS.

14. An entity's transitional IPSAS financial statements are those financial statements, where the entity transitions from another accounting basis such as when it:

    (a) Prepared its most recent previous financial statements in accordance with the IPSAS, *Financial Reporting Under the Cash Basis of Accounting*;

    (b) Presented its most recent previous financial statements:

        (i) In accordance with prescribed requirements that are not consistent with IPSAS in all respects;

        (ii) In conformity with IPSAS in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IPSAS;

        (iii) Containing an explicit statement of compliance with some, but not all, IPSAS, including the adoption of the exemptions provided in this IPSAS that affect fair presentation and compliance with accrual basis IPSAS (see paragraphs 36–62);

        (iv) In accordance with prescribed requirements inconsistent with IPSAS, using some individual IPSAS to account for items for which prescribed requirements did not exist; or

        (v) In accordance with prescribed requirements, with a reconciliation of some amounts to the amounts determined in accordance with IPSAS;

    (c) Prepared financial statements in accordance with IPSAS for internal use only, without making them available to external users;

    (d) Prepared a reporting package in accordance with IPSAS for consolidation purposes without preparing a complete set of financial statements as defined in IPSAS 1; or

    (e) Did not present financial statements for previous periods.

Recognition and Measurement

Opening Statement of Financial Position on Adoption of IPSAS

15. **A first-time adopter shall prepare and present an opening statement of financial position at the date of adoption of IPSAS. This is the starting point for its accounting in accordance with accrual basis IPSAS.**

Accounting Policies

16. **On the date of adoption of accrual basis IPSAS, a first-time adopter shall apply the requirements of the IPSAS retrospectively except if required, or otherwise permitted, in this IPSAS.**

17. **A first-time adopter shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in paragraphs 36–134. The accounting policies shall comply with each IPSAS effective at the date of adoption of IPSAS, except as specified in paragraphs 36–134.**

18. A first-time adopter that takes advantage of the exemptions in paragraph 36–134 will be required to amend its accounting policies after the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier).

19. A first-time adopter shall apply the versions of accrual basis IPSAS effective at the date of adoption of IPSAS. A first-time adopter may apply a new IPSAS that is not yet mandatory if that IPSAS permits early application. Any new IPSAS that become effective during the period of transition shall be applied by the first-time adopter from the date it becomes effective.

20. Except as described in paragraphs 36–134, a first-time adopter shall, in its opening statement of financial position:

    (a) Recognize all assets and liabilities whose recognition is required by IPSAS;

    (b) Not recognize items as assets or liabilities if IPSAS do not permit such recognition;

    (c) Reclassify items that it recognized in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSAS; and

    (d) Apply IPSAS in measuring all recognized assets and liabilities.

21. The accounting policies that a first-time adopter uses in financial statements may differ from those that it used at the end of its comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of adoption of IPSAS. Therefore, a first-time adopter shall recognize those adjustments to the opening balance of accumulated surplus or deficit in the period in which the items are recognized and/or measured (or, if appropriate, another category of net assets/equity). The first-time adopter shall recognize these adjustments in the earliest period presented.

22. The transitional exemptions and provisions in other IPSAS apply to changes in accounting policies made by an entity that already applies accrual basis IPSAS. The transitional exemptions and provisions in this IPSAS applies to a first-time adopter that prepares and presents its annual financial statements on the adoption of, and during the transition to accrual basis IPSAS.

Exceptions to the Retrospective Application of IPSAS

23. **A first-time adopter's estimates in accordance with IPSAS at the date of adoption of IPSAS, shall be consistent with estimates made in accordance with the previous basis of accounting (after**

adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were inconsistent with the requirements in IPSAS.

24. This IPSAS prohibits retrospective application of some aspects of accrual basis IPSAS. A first-time adopter may receive information after the date of adoption of IPSAS about estimates that it had made under its previous basis of accounting. In accordance with paragraph 23, a first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period.*

25. A first-time adopter may need to make estimates in accordance with IPSAS at the date of adoption of IPSAS or during the period of transition that were not required at that date under the previous basis of accounting. To achieve consistency with IPSAS 14, those estimates in accordance with IPSAS shall reflect conditions that existed at the date of adoption of IPSAS or at the date during the period of transition. In particular, estimates determined at the date of adoption of IPSAS or during the period of transition of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date. For non-financial assets, such as property, plant and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgment at the date of adoption of IPSAS or the date during the period of transition.

26. Paragraphs 23–25 apply to the opening statement of financial position. They also apply to a comparative period where an entity elects to present comparative information in accordance with paragraph 78, in which case the references to the date of adoption of IPSAS are replaced by references to the end of that comparative period.

Fair Presentation and Compliance with IPSAS

27. **A first-time adopter's first IPSAS financial statements shall fairly present the financial position, financial performance, and cash flows of the entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. If a first-time adopter takes advantage of the exemptions in paragraphs 36–62, these exemptions will affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSAS, until the exemptions that provided the relief have expired and/or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

28. **A first-time adopter shall claim full compliance with IPSAS only when it has complied with all the requirements of the applicable IPSAS effective at that date, subject to paragraph 11. If a first-time adopter adopts one or more of the exemptions in paragraph 36–62, the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS will be affected. An entity's whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS, and shall be qualified as accrual basis IPSAS complaint financial statements.**

29. In accordance with paragraph 29 of IPSAS 1 fair presentation is achieved in virtually all circumstances by compliance with applicable IPSAS. For a first-time adopter to claim full compliance with IPSAS, all the requirements of the applicable IPSAS needs to be complied with to ensure that information is presented in a manner that meets the qualitative characteristics, subject to paragraph 11.

30. The exemptions in paragraphs 36–62 provide relief from the recognition, measurement, presentation and/or disclosure requirements in IPSAS on the date of adoption of IPSAS and during the period of transition. A first-time adopter may elect to adopt these exemptions, but shall consider that applying these exemptions will affect the fair

presentation of its financial statements and its ability to assert compliance with accrual basis IPSAS in accordance with paragraphs 27 and 28 until the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured, and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier). Before making use of such exemptions, a first-time adopter shall consider all the relevant facts and circumstances and the potential effect on its financial statements.

31. **A first-time adopter shall assess whether the transitional exemptions adopted affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSAS.**

32. For example, a first-time adopter adopts the three-year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of revenue. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with IPSAS will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis IPSAS at the date of adoption of accrual basis IPSAS or during the period of transition.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

33. **A first-time adopter may adopt the exemptions in paragraphs 36–62. These exemptions will affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSAS during the period of transition in accordance with paragraphs 27 and 28 while they are applied. A first-time adopter shall not apply these exemptions by analogy to other items.**

34. **Notwithstanding the exemptions provided in paragraphs 36–62 a first-time adopter is encouraged to comply in full with all the requirements of the applicable IPSAS as soon as possible.**

35. **To the extent that a first-time adopter applies the exemptions in paragraph 36–62, it is not required to apply any associated presentation and/or disclosure requirements in the applicable IPSAS until the exemptions that provided the relief have expired or the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSAS (whichever is earlier).**

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. **Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSAS:**

    (a) **Inventories (see IPSAS 12, *Inventories*);**

    (b) **Investment property (see IPSAS 16, *Investment Property*);**

    (c) **Property, plant, and equipment (see IPSAS 45, *Property, Plant, and Equipment*);**

    (d) **Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);**

    (e) **Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);**

    (f) **Intangible assets (see IPSAS 31, *Intangible Assets*);**

(fa) **Right-of-use assets and the related lease liabilities (see IPSAS 43, *Leases*);**

(g) **Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);**

(h) **Financial instruments (see IPSAS 41, *Financial Instruments*); and**

(i) **Social benefits (see IPSAS 42, *Social Benefits*).**

37. **Where a first-time adopter applies the exemption in paragraph 36(d), it shall recognize the obligation and any related plan assets at the same time.**

38. **Where a first-time adopter has recognized the assets and/or liabilities included in paragraph 36 under its previous basis of accounting, it is not required to change its accounting policy(ies) in respect of the measurement of these assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSAS.**

39. Subject to paragraphs 36 and 38, a first-time adopter is not required to change its accounting policy(ies) in respect of the recognition and/or measurement of assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSAS. The transitional exemptions in paragraphs 36 and 38 are intended to allow a first-time adopter a period to develop reliable[1] models for recognizing and/or measuring its assets and/or liabilities during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of such assets and/or liabilities that do not comply with the provisions of other IPSAS.

40. **Subject to the provisions of paragraphs 36 and 38, a first-time adopter shall only change its accounting policies during the period of transition to better conform to the accounting policies in accrual basis IPSAS, and may retain its existing accounting policies until the exemptions that provided the relief have expired or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSAS (whichever is earlier). A first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories is permitted in the applicable IPSAS.**

41. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allows a three-year transitional relief period to not recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue, or other receivables settled in cash or another financial asset in terms of IPSAS 47, *Revenue.***

41A. **A first-time adopter shall apply the guidance in IPSAS 46 when measuring assets and/or liabilities.**

41B. **To the extent that a first-time adopter applies the exemptions in paragraphs 36 and 38 which allow a three-year transitional relief period to not recognize and/or measure financial liabilities, it is not required to recognize and/or measure any related expenses in terms of IPSAS 48, *Transfer Expenses*.**

Recognition and/or Measurement of Revenue

42. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of revenue for reporting periods beginning on a date within three years following the date of adoption of IPSAS. A first-time adopter may change its accounting policy in respect of revenue on a class-by-class basis**.

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability

43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue in accordance with IPSAS 47 during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue that do not comply with the provisions of IPSAS 47. The transitional provision in paragraph 42 allows a first-time adopter to apply IPSAS 47 incrementally to different classes of revenue. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of revenue from transactions without binding arrangements in accordance with IPSAS 47 from the date of adoption of IPSAS, but may require three years to fully develop a reliable model for recognizing and measuring revenue from income tax and revenue from transactions with binding arrangements.

Recognition and/or Measurement of Transfer Expenses

43A. **A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of transfer expenses for reporting periods beginning on a date within three years following the date of adoption of IPSAS. A first-time adopter may change its accounting policy in respect of transfer expenses on a class-by-class basis.**

43B. The transitional provision in paragraph 43A is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring transfer expenses in accordance with IPSAS 48, *Transfer Expenses*, during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of transfer expenses that do not comply with the provisions of IPSAS 48. The transitional provision in paragraph 43A allows a first-time adopter to apply IPSAS 48 incrementally to different classes of transfer expenses. For example, a first-time adopter may be able to recognize and measure transfer expenses without binding arrangements in accordance with IPSAS 48 from the date of adoption of IPSAS, but may require three years to fully develop a reliable model for recognizing and measuring transfer expenses with binding arrangements.

Other Exemptions

IPSAS 5, *Borrowing Costs*

44. **Where a first-time adopter applies the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure assets, and elects to account for borrowing costs in terms of the allowed alternative treatment, it is not required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of accrual basis IPSAS, until the exemption that provided the relief has expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

45. Paragraph 36 allows a first-time adopter to not, recognize and/or measure assets in accordance with IPSAS 16, 17, 27, 31 and 32 for a period of up to three years from the date of adoption of IPSAS. During this period, a first-time adopter may need to consider the requirements of those IPSAS at the same time as the capitalization of borrowing costs where it applies the allowed alternative method. Where a first-time adopter takes advantage of the transitional exemption period for the recognition and/or measurement of assets in accordance with IPSAS 16, 17, 27, 31 and 32 it is not required to capitalize borrowing costs incurred on qualifying assets prior, or during the period of transition. Only when the exemptions that provided the relief have expired, and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) will a first-time adopter be allowed to capitalize borrowing costs incurred on the qualifying assets in accordance with the allowed alternative treatment.

IPSAS 43, *Leases*

46. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

47. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to not recognize assets in accordance with IPSAS 16, 17, 27, 31 and 32. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS at the same time as considering the recognition of leases in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 16, 17, 27, 31 and 32 it is not required to recognize lease assets and/or liabilities until the exemptions that provided the relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

48. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure property, plant and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for IPSAS 45 has expired, and/or the relevant asset is recognized and/or measured in accordance with IPSAS 45 (whichever is earlier).**

49. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to not recognize and/or measure property, plant and equipment. IPSAS 45 requires an entity to include as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant and equipment, a first-time adopter is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption that provided the relief has expired, and/or when the relevant asset is recognized and/or measured in accordance with IPSAS 45 (whichever is earlier). The liability shall be measured as at the date of adoption of IPSAS, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognized and/or measured in accordance with the applicable IPSAS.

50. **Where a first-time adopter takes advantage of the exemption in paragraph 48, it shall recognize and/or measure the obligation and any related asset at the same time.**

IPSAS 20, *Related Party Disclosures*

51. **A first-time adopter is not required to disclose related party relationships, related party transactions and information about key management personnel for reporting periods beginning on a date within three years following the date of adoption of IPSAS.**

52. **Notwithstanding the transitional provision in paragraph 51, a first-time adopter is encouraged to disclose information about related party relationships, related party transactions and information about key management personnel that is known at the date of adoption of IPSAS.**

IPSAS 34, *Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures*

53. **Where a first-time adopter has not recognized its interests in controlled entities, associates or joint ventures under its previous basis of accounting, it is not required to recognize and/or measure its interests in other entities as a controlled entity, associate or joint venture for reporting periods beginning on a date within three years following the date of adoption of accrual basis IPSAS.**

54. Subject to paragraph 53, a first-time adopter is not required to change its accounting policy in respect of the recognition and/or measurement of its interests in controlled entities, associates or joint ventures for reporting periods beginning on a date within three years following the date of adoption of IPSAS. The transitional exemption in paragraph 53 is intended to allow a first-time adopter a period to identify and appropriately classify its interests in other entities as either controlled entities, associates or joint ventures during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of its interests in controlled entities, associates or joint ventures that do not comply with the provisions of other IPSAS.

IPSAS 35, *Consolidated Financial Statements*

55. **Subject to paragraph 53, a first-time adopter shall present consolidated financial statements following the adoption of accrual basis IPSAS. A first-time adopter presenting consolidated financial statements is, however, not required to eliminate all balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within three years following the date of adoption of IPSAS.**

56. On adoption of IPSAS, an entity may have controlled entities with a significant number of transactions between controlled entities. Accordingly, it may be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 55 provides relief for a period of up to three years to fully eliminate balances, transactions, revenue and expenses between entities within the economic entity.

57. **Notwithstanding the transitional exemption in paragraph 55, a first-time adopter is encouraged to eliminate those balances, transactions, revenue and expenses that are known on the date of adoption of IPSAS to comply in full with the provisions of IPSAS 35 as soon as possible.**

58. **Where a first-time adopter has taken advantage of the transitional exemption in paragraph 53 and/or paragraph 55, it shall not present financial statements as consolidated financial statements until:**

    (a) **The exemptions that provided the relief have expired; and**

    (b) **Its interests in other entities have been appropriately recognized and/or measured as controlled entities, associates or joint ventures; or**

    (c) **Inter-entity balances, transactions, revenue and expenses between entities within the economic entity are eliminated (whichever is earlier).**

IPSAS 36, *Investments in Associates and Joint Ventures*

59. **When a first-time adopter applies the equity method on adoption of IPSAS 36, the investor is not required to eliminate its share in the surplus and deficit resulting from upstream and downstream transactions between the investor and its associate or joint venture for reporting periods beginning on a date within three years following the date of adoption of IPSAS.**

60. On adoption of IPSAS, a first-time adopter may be an investor in one or more associates or joint ventures with a significant number of upstream and downstream transactions between the investor and the investee. Accordingly, it may be difficult to identify some upstream and/or downstream transactions in which the

investor's share in the associate's or joint venture's surplus or deficit needs to be eliminated in applying the equity method. For this reason, paragraph 59 provides the investor relief with a period of up to three years to fully eliminate its share in the associate's or joint venture's surplus or deficit resulting from upstream and/or downstream transactions.

61. **Notwithstanding the transitional exemption in paragraph 59, a first-time adopter is encouraged to eliminate its share in the associate's and joint venture's surplus and deficit resulting from upstream and downstream transactions that are known on the date of adoption of IPSAS, to comply in full with the provisions of IPSAS 36 as soon as possible.**

62. **Where a first-time adopter has taken advantage of the transitional exemption in paragraph 53 and/or paragraph 59, it shall not present financial statements in which investments in associates or joint ventures are accounted for using the equity method until:**

(a) **The exemptions that provided the relief have expired; and**

(b) **The interest in other entities have been appropriately recognized and/or measured as an associate or joint venture; or**

(c) **Its share in the associate's surplus and deficit resulting from upstream and downstream transactions between the investor and the investee are eliminated (whichever is earlier).**

IPSAS 40, *Public Sector Combinations*

62A. **Where a first-time adopter applies the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize and/or measure assets and/or liabilities, the first-time adopter may be a party to a public sector combination during that three year transitional relief period. The first-time adopter is not required to recognize and/or measure the assets and/or liabilities associated with the public sector combination, until the exemption that provided the relief has expired and/or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

62B. **Where a first-time adopter applies the exemption in paragraph 62A it shall not recognize goodwill in respect of an acquisition. The first-time adopter shall recognize the difference between (a) and (b) below in net assets/equity:**

(a) **The aggregate of:**

(i) **Any consideration transferred;**

(ii) **Any non-controlling interests in an acquired operation; and**

(iii) **Any previously held equity interests in an acquired operation.**

(b) **The net amounts of any identifiable assets acquired and the liabilities assumed.**

62C. IPSAS 40 is applied prospectively. Consequently, a first-time adopter does not adjust any amounts of goodwill recognized as a result of a public sector combination that occurred prior to the application of IPSAS 40.

IPSAS 50, *Exploration for and Evaluation of Mineral Resources*

62D. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to exploration and evaluation assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

62E. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45, it is not required to recognize exploration and evaluation assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)

62F. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to stripping activity assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

62G. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45 or IPSAS 31, whichever applies. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45 or IPSAS 31, whichever applies, it is not required to recognize stripping activity assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

IPSAS 51, *Tangible Natural Resources Held for Conservation*

62H. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to tangible natural resources held for conservation until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).**

62I. This Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS Standards at the same time as considering the recognition of tangible natural resources held for conservation in IPSAS 51. Where a first-time adopter takes advantage of the exemption in this Standard, it is not required to recognize tangible natural resources until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS During the Period of Adoption

63. **A first-time adopter is required, or may elect, to adopt the exemptions in paragraphs 64–134. These exemptions will not affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSAS during the period of transition in accordance with paragraphs 27 and 28 while they are applied. A first-time adopter shall not apply these exemptions by analogy to other items.**

Using Deemed Cost to Measure Assets and/or Liabilities

64. **A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:**

(a) **Inventory (see IPSAS 12);**

(b) **Investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16;**

(ba) **Right-of-use assets (see IPSAS 43);**

(c) [Deleted]**;**

(d) **Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:**

(i) **The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**

(ii) **The criteria in IPSAS 31 for revaluation (including the existence of an active market);**

(e) **Financial Instruments (see IPSAS 41); or**

(f) **Service concession assets (see IPSAS 32).**

64A. A first-time adopter may elect to measure property, plant, and equipment, at deemed cost, being current operational value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets and liabilities is not available. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.

65. Deemed cost can only be determined where the acquisition cost of the asset and/or the liability is not available. Deemed cost assumes that the entity had initially recognized the asset and/ or the liability at the given date. Subsequent depreciation or amortization is based on that deemed cost on the premise that the acquisition cost is equal to the deemed cost. For example, a first-time adopter may elect to measure property, plant and equipment at deemed cost at the date of adoption of IPSAS because cost information about the item of property, plant and equipment was not available on that date, and use current operational value, or fair value as its deemed cost at that date. Any subsequent depreciation is based on the value measured at that date and starts from the date that the deemed cost has been determined.

66. The use of deemed cost is not considered a revaluation or the application of the current value model for subsequent measurement in accordance with other IPSAS.

67. **A first-time adopter may elect to use the revaluation amount of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:**

(a) **Fair value, when the property, plant, and equipment is held for its financial capacity; or**

(ab) **Current operational value, when the property, plant, and equipment is held for its operational capacity.**

(b) [Deleted]

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at fair value, or current operational value, at one particular date because of a specific event:

(a) If the measurement date is at or before the date of adoption of IPSAS, a first-time adopter may use such event-driven fair value, or current operational value, measurements as deemed cost for IPSAS at the date of that measurement.

(b) If the measurement date is after the date of adoption of IPSAS, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three-year transitional relief period to not recognize and/or measure certain assets, the event-driven fair value, or current operational value, measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.

69. In measuring the current value in accordance with paragraph 67, the first-time adopter shall apply the definition of current operational value, or fair value, and guidance in IPSAS 46.

70. **If observable inputs of current value are not available for inventory, investment property that is of a specialized nature, or property, plant, and equipment, a first-time adopter may consider other measurement techniques in determining a deemed cost in accordance with IPSAS 46.**

Using Deemed Cost to Measure Assets Acquired Through a Non-Exchange Transaction

71. **A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its fair value, or for property, plant, and equipment at its current operational value or fair value, when reliable cost information about the asset is not available, and use that fair value as its deemed cost. In accordance with IPSAS 45, the primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis. Property, plant, and equipment held for its operational capacity is measured at current operational value. Property, plant, and equipment held for its financial capacity is measured at fair value.**

Using Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates (IPSAS 34)

72. **Where a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, on the date of adoption of IPSAS, elect to measure that investment at one of the following amounts in its separate opening statement of financial position:**

(a) **Cost; or**

(b) **Deemed cost. The deemed cost of such an investment shall be its fair value at the first-time adopter's date of adoption of IPSAS in its separate financial statements.**

73. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring it at its fair value at one particular date because of a specific event. In such instances, a first-time adopter applies paragraph 72(a) and (b).

Date at which Deemed Cost can be Determined

74. **The date at which deemed cost is determined may vary depending on whether the first-time adopter takes advantage of the exemptions that provides a three-year transitional relief period to not recognize and/or measure certain assets and/or liabilities. When the first-time adopter takes advantage of the exemption, deemed cost can be determined at any date during this period, or on the date that the exemption expires (whichever is earlier), and shall be recognized in accordance with paragraph 76. If a first-time adopter does not adopt the exemption, deemed cost shall be determined at the beginning of the earliest period for which the first-time adopter presents IPSAS financial statements.**

75. Where a first-time adopter takes advantage of the exemption that provides a three-year transitional relief period to not recognize and/or measure certain assets and/or liabilities, it may determine a deemed cost for that asset and/or liability at any point of time within the three year transitional relief period.

76. **When a deemed cost is determined during the period in which a first-time adopter takes advantage of the exemption that provides a three year transitional exemption not to recognize and/or measure an asset and/or liability, a first-time adopter shall recognize the adjustment against the opening accumulated surplus or deficit in the year in which the deemed cost of the asset and/or liability is recognized and/or measured.**

IPSAS 1, *Presentation of Financial Statements*

Comparative Information

77. **A first-time adopter is encouraged, but not required, to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this IPSAS. When a first-time adopter presents comparative information, it shall be presented in accordance with the requirements of IPSAS 1.**

78. **Where a first-time adopter elects to present comparative information, the first transitional IPSAS financial statements or the first IPSAS financial statements presented in accordance with this IPSAS shall include:**

    (a) **One statement of financial position with comparative information for the preceding period, and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSAS;**

    (b) **One statement of financial performance with comparative information for the preceding period;**

    (c) **One statement of changes in net assets/equity with comparative information for the preceding period;**

    (d) **One cash flow statement with comparative information for the preceding period;**

    (e) **A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and**

    (f) **Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 142.**

79. **Where a first-time adopter elects to not present comparative information, its first transitional IPSAS financial statements following the adoption of accrual basis IPSAS or its first IPSAS financial statements presented in accordance with this IPSAS shall include:**

    (a) **One statement of financial position, and an opening statement of financial position at the date of adoption of accrual basis IPSAS;**

    (b) **One statement of financial performance;**

    (c) **One statement of changes in net assets/equity;**

    (d) **One cash flow statement;**

    (e) **A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and**

(f) **Related notes and the disclosure of narrative information about material adjustments as required by paragraph 142.**

80. **Where a first-time adopter takes advantage of the exemptions in paragraphs 36–62 which allow a three-year transitional relief period to not recognize and/or measure an item, comparative information for the year following the date of adoption of IPSAS shall be adjusted only when information is available about the items following their recognition and/or measurement during the relief period.**

81. IPSAS 1 requires an entity to present comparative information in respect of the previous period for all amounts reported in the financial statements. Where a first-time adopter takes advantage of the exemption that provides a three-year transitional exemption to not recognize and/or measure an item, it shall, during the period of transition present comparative information for an item recognized and/or measured during that period only, if information is available about the item for the comparative period. The first-time adopter shall apply the requirements in IPSAS 1 after it has adjusted its first IPSAS financial statements.

Non-IPSAS Comparative Information

82. A first-time adopter may present comparative information in accordance with its previous basis of accounting. In any financial statements containing comparative information in accordance with the previous basis of accounting, the first-time adopter shall label the information prepared using the previous basis of accounting information as not being prepared in accordance with IPSAS, and disclose the nature of the main adjustments that would be required to comply with IPSAS.

83. Where a first-time adopter presents non-IPSAS comparative information in its first IPSAS or first transitional IPSAS financial statements following its adoption of accrual basis IPSAS, the transitional exemptions and provisions provided in this Standard shall not be applied to the non-IPSAS comparative information presented in the first IPSAS financial statements or first transitional IPSAS financial statements.

Non-IPSAS Historical Summaries

84. A first-time adopter may elect to present historical summaries of selected data for periods before the first period for which it presents financial statements in accordance with IPSAS. This IPSAS does not require such summaries to comply with the recognition and measurement requirements of IPSAS. In any financial statements containing historical summaries in accordance with the previous basis of accounting, the first-time adopter shall label the previous basis of accounting information prominently as not being prepared in accordance with IPSAS, and disclose the nature of the main adjustments that would be required to comply with IPSAS. The first-time adopter need not quantify those adjustments.

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

85. **On the date of adoption of IPSAS a first-time adopter need not comply with the requirements for cumulative translation differences that exist at that date. If a first-time adopter uses this exemption:**

(a) **The cumulative translation differences for all foreign operations are deemed to be zero at the date of adoption of IPSAS; and**

(b) **The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of adoption of IPSAS and shall include later translation differences.**

85A. **A first-time adopter need not apply Appendix A of IPSAS 4 to assets, expenses and revenue in the scope of Appendix A initially recognized before the date of adoption of IPSAS.**

85B. **Instead of applying paragraph 85, a controlled entity that uses the exemption in paragraph 129(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign**

operations at the carrying amount that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of adoption of IPSAS, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity. A similar election is available to an associate or joint venture that uses the exemption in paragraph 129(a).

86. **A first-time adopter shall apply the requirement to treat any goodwill (see IPSAS 40) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of adoption of IPSAS.**

87. In applying the transitional exemption in paragraph 85, a first-time adopter shall not restate prior years for the acquisition of a foreign operation acquired prior to the date of adoption of IPSAS, and accordingly shall, where appropriate, treat goodwill and fair value adjustments arising on acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

IPSAS 5, *Borrowing Costs*

88. **A first-time adopter is encouraged, but not required, to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment.**

89. **Where a first-time adopter adopts or changes its accounting policy to the benchmark treatment it is allowed to designate any date before the date of adoption of IPSAS and apply IPSAS 5 prospectively on or after that designated date.**

90. **Where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred both before and after date of adoption of IPSAS on qualifying assets for which the commencement date for the capitalization is prior to the date of adoption of IPSAS, shall be recognized retrospectively in accordance with the allowed alternative treatment.**

IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

Severe Hyperinflation

91. **If a first-time adopter has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of adoption of IPSAS.**

92. The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

    (a) A reliable general price index is not available to all entities with transactions and balances in the currency; and

    (b) Exchangeability between the currency and a relatively stable foreign currency does not exist.

93. The functional currency of a first-time adopter ceases to be subject to severe hyperinflation on the functional currency normalization date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph 92 or when there is a change in the first-time adopter's functional currency to a currency that is not subject to severe hyperinflation.

94. **When a first-time adopter's date of adoption of IPSAS is on, or after, the functional currency normalization date, the first-time adopter may elect to measure all assets and liabilities held before the functional currency normalization date at fair value on the date of adoption to IPSAS. The first-**

time adopter may use that fair value as the deemed cost of those assets and liabilities in the opening statement of financial position.

IPSAS 43, *Leases*

95. **A first-time adopter shall on the date of adoption of IPSAS, classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known on the date of adoption of IPSAS. A first-time adopter may assess whether a contract existing at the date of adoption of IPSAS contains a lease by applying paragraphs 10–12 of IPSAS 43 to those contracts on the basis of facts and circumstances existing at that date.**

96. [Deleted]

96A. When a fist-time adopter that is a lessee recognizes lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph 96C):

(a) Measure a lease liability at the date of adoption of IPSAS. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments (see paragraph 96D), discounted using the lessee's incremental borrowing rate (see paragraph 96D) at the date of adoption of IPSAS.

(b) Measure a right-of-use asset at the date of adoption of IPSAS. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) Its carrying amount as if IPSAS 43 had been applied since the commencement date of the lease (see paragraph 96D), but discounted using the lessee's incremental borrowing rate at the date of adoption of IPSAS; or

(ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of adoption of IPSAS;

(c) Apply IPSAS 21 or IPSAS 26 to right-of-use assets at the date of adoption of IPSAS.

96B. Notwithstanding the requirements in paragraph 96A, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of adoption of IPSAS for leases that meet the definition of investment property in IPSAS 16 and are measured using the current value model in IPSAS 16 from the date of adoption of IPSAS.

96C. A first-time adopter that is a lessee may do one or more of the following at the date of adoption of IPSAS, applied on a lease-by-lease basis:

(a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

(b) Elect not to apply the requirements in paragraph 96A to leases for which the lease term (see paragraph 96D) ends within 12 months of the date of adoption of IPSAS. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted for in accordance with paragraph 7 of IPSAS 43.

(c) Elect not to apply the requirements in paragraph 96A to leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9 of IPSAS 43). Instead, the entity shall account for (including disclosure of information about) these leases in accordance with paragraph 7 of IPSAS 43.

(d) Exclude initial direct costs (see paragraph 96D) from the measurement of the right-of-use asset at the date of adoption of IPSAS.

(e) Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

96D. Lease payments, lessor, lessee, lessee's incremental borrowing rate, commencement date of the lease, initial direct costs and lease term are defined terms in IPSAS 43 and are used in this Standard with the same meaning.

IPSAS 18, *Segment Reporting*

97. **A first-time adopter is not required to present segment information for reporting periods beginning on a date within three years following the date of adoption of IPSAS.**

IPSAS 21, *Impairment of Non-Cash-Generating Assets*

98. **A first-time adopter shall apply the requirements in IPSAS 21 prospectively from the date of adoption of IPSAS, except in relation to those assets where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize and/or measure assets. When a first-time adopter takes advantage of the exemption that provides a three-year transitional relief period in IPSAS 16, 17, 27, 31 and 32, it applies IPSAS 21 when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

99. **On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the non-cash-generating assets recognized and/or measured are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSAS, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).**

100. A first-time adopter shall apply the requirements of IPSAS 21 prospectively. This means that on the date of adoption of accrual basis IPSAS, or if the first-time adopter has adopted transitional relief relating to the recognition and/or measurement of assets, only when the three year transitional exemption expires, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), will a first-time adopter be required to assess whether there is an indication that any non-cash-generating assets included in the opening statement of financial position, are impaired.

IPSAS 39, *Employee Benefits*

101. **A first-time adopter shall recognize and/or measure all employee benefits on the date of adoption of IPSAS, except for defined benefit plans and other long-term employee benefits where it takes advantage of the exemption in paragraph 36.**

Defined Benefit Plans and Other Long-Term Employee Benefits

102. **On the date of adoption of IPSAS, or where a first-time adopter takes advantage of the three-year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:**

(a) **The present value of the obligation at the date of adoption of IPSAS, or where a first-time adopter takes advantage of the three-year transitional relief period, the date on which the**

exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method; and

(b) **Minus the fair value, at the date of adoption of IPSAS, or where a first-time adopter takes advantage of the three-year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier) of plan assets (if any) out of which the obligations are to be settled directly.**

(c) **[Deleted]**

103. **If the initial liability in accordance with paragraph 102 is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

104. The effect of the change in the accounting policy to IPSAS 39 includes any remeasurements that arose, if any, in earlier periods. Under its previous basis of accounting, a first-time adopter may not have recognized and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSAS or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph 102(b). This increased liability is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

105. **A first-time adopter shall recognize all cumulative remeasurements in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

106. [Deleted]

107. [Deleted]

IPSAS 26, *Impairment of Cash-Generating Assets*

108. **A first-time adopter shall apply the requirements in IPSAS 26 prospectively from the date of adoption of IPSAS, except in relation to those assets where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize and/or measure assets. When a first-time adopter takes advantage of the exemption that provides a three-year transitional relief period in IPSAS 16, 17, 27, 31 and 32, it applies IPSAS 26 when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

109. **On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the cash-generating assets recognized and/or measured are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSAS, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).**

110. A first-time adopter shall apply the requirements of IPSAS 26 prospectively. This means that on the date of adoption of accrual basis IPSAS, or if the first-time adopter has adopted the transitional relief relating to the recognition and/or measurement of assets, only when the three year transitional exemption expires, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier),

will a first-time adopter be required to assess whether there is an indication that any cash-generating assets included in the opening statement of financial position, are impaired.

IPSAS 28, *Financial Instruments: Presentation*

111. **On the date of adoption of IPSAS, a first-time adopter shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net asset/equity component. If the liability component is no longer outstanding on the date of adoption of IPSAS, the first-time adopter need not separate the compound financial instrument into a liability component and a net asset/equity component.**

112. IPSAS 28 requires an entity to split a compound financial instrument at inception into separate liability and net asset/equity components. If the liability component is no longer outstanding, retrospective application of IPSAS 28 involves separating two portions of net assets/equity. The first portion is in accumulated surplus and deficit and represents the cumulative interest accreted on the liability component. The other portion represents the original net asset/equity component. However, this IPSAS allows a first-time adopter to not separate these two portions if the liability component is no longer outstanding at the date of adoption of IPSAS.

IPSAS 41, *Financial Instruments*

Designation of Financial Instruments on the Date of Adoption of IPSAS or During the Period of Transition

113. **A first-time adopter may designate a financial asset or financial liability as a financial asset or financial liability at fair value through surplus or deficit that meet the criteria for designation in IPSAS 41, in accordance with paragraph 113A. A first-time adopter shall disclose the fair value of financial assets and financial liabilities designated into each category at the date of designation, their classification and carrying amount.**

113A. **IPSAS 41 permits a financial asset or financial liability to be designated on initial recognition (provided it meets certain criteria) as a financial asset or financial liability as at fair value though surplus or deficit. Despite this requirement, an exception applies when a first-time adopter is permitted to designate, at the date of adoption of IPSAS, any financial asset or financial liability as at fair value through surplus or deficit provided the asset meets the criteria in paragraph 44 of IPSAS 41 or liability meets the criteria in paragraph 46 of IPSAS 41 at that date.**

114. [Deleted]

114A. An entity may designate an investment in an equity instrument as at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS.

Derecognition of Financial Assets and Financial Liabilities

115. **Except as permitted by paragraph 116 a first-time adopter shall apply the derecognition requirements in IPSAS 41 prospectively for transactions occurring on or after the date of adoption of IPSAS, or where a first-time adopter takes advantage of the exemptions not to recognize financial instruments, the date on which the exemptions that provided the relief have expired and/or the financial instruments are recognized (whichever is earlier). For example, if a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities in accordance with its previous basis of accounting as a result of a transaction that occurred before the date of adoption of IPSAS, it shall not recognize those assets and liabilities in accordance with IPSAS 41, unless they qualify for recognition as a result of a later transaction or event.**

116. **Notwithstanding the provision in paragraph 115, a first-time adopter may apply the derecognition requirements in IPSAS 41 retrospectively from a date of the first-time adopter choosing, provided that the information needed to apply IPSAS 41 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for these transactions.**

Hedge Accounting

117. **As required by IPSAS 41, a first-time adopter shall at the date of adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier):**

(a) **Measure all derivatives at fair value; and**

(b) **Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with its previous basis of accounting as if they were assets or liabilities.**

118. **A first-time adopter shall not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IPSAS 41 (for example, many hedging relationships where the hedging instrument is a stand-alone written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if a first-time adopter designated a net position as a hedged item in accordance with its previous basis of accounting, it may designate as a hedged item in accordance with IPSAS an individual item within that net position, or a net position if that meets the requirements in paragraph 146 of IPSAS 41, provided that it does so no later than the date of adoption of IPSAS or where it takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

119. **If, before the date of adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments the date on which the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), a first-time adopter had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IPSAS 41, the first-time adopter shall apply paragraphs 135 and 136 of IPSAS 41 to discontinue hedge accounting. Transactions entered into before the date of adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments, the date when the transitional exemption expires and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 41 (whichever is earlier), shall not be retrospectively designated as hedges.**

Classification and Measurement of Financial Instruments

119A. An entity shall assess whether a financial asset meets the conditions in paragraph 40 or the conditions in paragraph 41 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS.

119B. If it is impracticable to assess a modified time value of money element in accordance with paragraphs AG68–AG70 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of transition to IPSAS,

an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of IPSAS without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70 of IPSAS 41. (In this case, the entity shall also apply paragraph 49J of IPSAS 30 but references to 'paragraph 161 of IPSAS 41' shall be read to mean this paragraph and references to 'initial recognition of the financial asset' shall be read to mean 'at the date of adoption of IPSAS'.)

119C. If it is impracticable to assess whether the fair value of a prepayment feature is insignificant in accordance with paragraph AG74(c) of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of IPSAS without taking into account the exception for prepayment features in paragraph AG74 of IPSAS 41. (In this case, the entity shall also apply paragraph 49K of IPSAS 30 but references to 'paragraph 162 of IPSAS 41' shall be read to mean this paragraph and references to 'initial recognition of the financial asset' shall be read to mean 'at the date of adoption of IPSAS'.)

119D. If it is impracticable (as defined in IPSAS 3) for an entity to apply retrospectively the effective interest method in IPSAS 41, the fair value of the financial asset or the financial liability at the date of adoption of IPSAS shall be the new gross carrying amount of that financial asset or the new amortized cost of that financial liability at the date of adoption of IPSAS.

Impairment of Financial Assets

120. **A first-time adopter shall apply the impairment requirements prospectively from the date of adoption of IPSAS, except in relation to those financial assets where it takes advantage of the exemptions in paragraphs 36, 38 and 42 which allow a three-year transitional relief period to not recognize and/or measure financial instruments. When a first-time adopter adopts the three-year transitional relief period provided, it applies the impairment provisions when exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 41 (whichever is earlier).**

121. **A first-time adopter shall on the date of adoption of IPSAS, or when the exemptions that provided the relief have expired, and/or when the relevant financial instruments are recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier), assess at that date whether there is any indication that the financial instrument recognized and/or measured in the statement of financial position, is impaired. Any impairment loss incurred shall be recognized in opening accumulated surplus or deficit in the period in which the financial instrument is recognized and/or measured.**

122. A first-time adopter shall apply the impairment requirements prospectively. This means that on the date of adoption of IPSAS 41, when the exemptions that provided the relief have expired, and/ or when the relevant financial instruments are recognized and/or measured, a first-time adopter shall be required to assess whether there is an indication that the financial instrument is impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSAS, or in the opening accumulated surplus or deficit of the reporting period in which the exemptions that provided the relief have expired, and/or the relevant financial instruments are recognized and/or measured (whichever is earlier).

122A. At the date of adoption of IPSAS 41, when the exemptions that provided the relief have expired, and/ or when the relevant financial instruments are recognized and/or measured, a first-time adopter shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognized (or for loan commitments and financial guarantee contracts the date that the entity became a party to the irrevocable commitment in accordance with paragraph

78 of IPSAS 41) and compare that to the credit risk at the date of adoption of IPSAS (also see paragraphs AG350–AG351 of IPSAS 41).

122B. When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:

(a) The requirements in paragraph 82 and AG179–AG182 of IPSAS 41; and

(b) The rebuttable presumption in paragraph 83 of IPSAS 41 for contractual payments that are more than 30 days past due if an entity will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

122C. If, at the date of adoption of IPSAS, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognize a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized (unless that financial instrument is low credit risk at a reporting date, in which case paragraph 122B(a) applies).

Embedded Derivatives

122E. A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph AG109 of IPSAS 41.

IPSAS 30, *Financial Instruments: Disclosures*

123. **Where the first-time adopter elects to present comparative information in accordance with paragraph 78, it is not required to present information about the nature and extent of risks arising from financial instruments for the comparative period in its first transitional IPSAS financial statements or its first IPSAS financial statements.**

124. **A first-time adopter shall apply the requirements in IPSAS 30 pros-pectively from the date of adoption of IPSAS, or when the exemptions that provided the relief have expired, and/or when the relevant financial instrument is recognized and/or measured in accordance with IPSAS 41 (whichever is earlier).**

IPSAS 31, *Intangible Assets*

125. **A first-time adopter shall recognize and/or measure an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets.**

126. As required by paragraph 20, a first-time adopter is required to recognize all assets for which recognition is required by IPSAS. A first-time adopter shall therefore recognize any internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, irrespective of whether such costs were expensed under its previous basis of accounting.

IPSAS 32, *Service Concession Arrangements*

Initial Measurement of Related Liability

127. **Where a first-time adopter elects to measure service concession assets using deemed cost, the related liabilities shall be measured as follows:**

(a) **For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in IPSAS 32; or**

(b) **For the liability under the grant of a right to the operator model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.**

128. **A first-time adopter shall recognize and/or measure any difference between the value of the service concession asset and the financial liability under the financial liability model in paragraph 127 in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* and IPSAS 36, *Investments in Associates and Joint Ventures*

129. **If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:**

(a) **The carrying amounts determined in accordance with this IPSAS that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSAS, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity; or**

(b) **The carrying amounts required by the rest of this IPSAS, based on the controlled entity's date of adoption of IPSAS. These carrying amounts could differ from those described in (a):**

(i) **When the exemptions in this IPSAS result in measurements that depend on the date of adoption of IPSAS.**

(ii) **When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the historical cost model in IPSAS 45, whereas the economic entity may use the current value model.**

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

130. **However, if a controlling entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the controlling entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the public sector combination in which the controlling entity acquired the controlled entity (or associate or joint venture), subject to the exemptions that may be adopted in terms of this IPSAS. Similarly, if a controlled entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, subject to the exemptions that may be adopted in this IPSAS, except for consolidation adjustments.**

IPSAS 35, *Consolidated Financial Statements*

131. **A first-time adopter that is a controlled entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at the date of adoption of accrual basis IPSAS, and**

measure its investment in each controlled entity at fair value through surplus or deficit at the date of adoption of accrual basis IPSAS.

Non-controlling Interests

131A. A first-time adopter shall apply the following requirements of IPSAS 35 prospectively from the date of transition to IPSAS:

(a) The requirement in paragraph 49 that the total amount recognized in the statement of changes in net assets/equity is attributed to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

(b) The requirements in paragraphs 48 and 51 for accounting for changes in the controlling entity's interest in a controlled entity that do not result in the loss of control; and

(c) The requirements in paragraphs 53-55 for accounting for a loss of control over a controlled entity, and the related requirements of paragraph 13 of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

IPSAS 37, *Joint Arrangements*

132. **Where a first-time adopter accounted for its investment in a joint venture under its previous basis of accounting basis using proportionate consolidation, the investment in the joint venture shall be measured on the date of adoption as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (see IPSAS 40).**

133. **The opening balance of the investment determined in accordance with paragraph 132 is regarded as the deemed cost of the investment at initial recognition. A first-time adopter shall test the investment for impairment as at the date of adoption, regardless of whether there is any indication that the investment may be impaired. Any impairment loss shall be adjusted to the accumulated surplus or deficit at the date of adoption.**

134. **If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, the first-time adopter shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the first-time adopter shall recognize a corresponding liability. If the first-time adopter concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognize the corresponding liability but it shall adjust accumulated surplus or deficit at the date of adoption. The first-time adopter shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the date of adoption of accrual basis IPSAS.**

IPSAS 42, *Social Benefits*

134A. **On the date of adoption of IPSAS, or where a first-time adopter takes advantage of the three-year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with IPSAS 42.**

134B. **If the initial liability in accordance with paragraph 134A is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

Disclosures

135. **A first-time adopter with financial statements that comply with the requirements of this IPSAS while taking advantage of the transitional exemptions and provisions that affect fair presentation and its ability to assert compliance with accrual basis IPSAS, shall make an explicit and unreserved statement of compliance with this IPSAS in the notes to the financial statements. This statement shall be accompanied by a statement that the financial statements do not fully comply with accrual basis IPSAS.**

136. **Where a first-time adopter takes advantage of the transitional exemptions in this IPSAS, the first-time adopter shall disclose:**

(a) **The extent to which it has taken advantage of the transitional exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS; and/or**

(b) **The extent to which it has taken advantage of the transitional exemptions that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.**

137. **To the extent that a first-time adopter has taken advantage of the transitional exemptions and provisions in this IPSAS that affect fair presentation and compliance with accrual basis IPSAS in relation to assets, liabilities, revenue and/or expenses, it shall disclose:**

(a) **Progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities revenue and/or expenses in accordance with the requirements of the applicable IPSAS;**

(b) **The assets, liabilities, revenue and/or expenses that have been recognized and measured under an accounting policy that is not consistent with the requirements of applicable IPSAS;**

(c) **The assets, liabilities, revenue and/or expenses that have not been measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;**

(d) **The nature and amount of any adjustments recognized during the reporting period; and**

(e) **An indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS.**

138. **Where a first-time adopter takes advantage of the transitional exemption to not eliminate some balances, transactions, revenue and expenses, and/or where it applies the three year transitional relief for the recognition and/or measurement of its interest in controlled entities, associates or joint ventures in paragraph 55, it shall disclose the nature of the balances, transactions, revenue and expenses and/or upstream or downstream transactions that have been eliminated during the reporting period.**

139. **Where a first-time adopter is not able to present consolidated financial statements because of the transitional exemptions and provisions adopted in paragraphs 58 or 62, it shall disclose:**

(a) **The reason why the financial statements, investments in associates or interests in joint ventures could not be presented as consolidated financial statements; and**

(b) **An indication by when the first-time adopter will be able to present consolidated financial statements.**

140. **The disclosure requirements of paragraphs 135 and 139 will assist users to track the progress of the first-time adopter in conforming its accounting policies to the requirements in the applicable IPSAS during the period of transition.**

Explanation of Transition to IPSAS

141. **A first-time adopter shall disclose:**

(a) **The date of adoption of IPSAS; and**

(b) **Information and explanations about how the transition from the previous basis of accounting to IPSAS affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.**

Reconciliations

142. **A first-time adopter shall present in the notes to its first transitional IPSAS financial statements or its first IPSAS financial statements:**

(a) **A reconciliation of its balance of net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS; and**

(b) **A reconciliation of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS.**

A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.

143. The reconciliation presented in accordance with paragraph 142 shall provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening statement of financial position and, where applicable, the restated comparative statement of financial performance presented in accordance with accrual basis IPSAS. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents shall be included in the notes.

144. If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 142 shall distinguish the correction of those errors from changes in accounting policies.

145. **If an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact.**

146. **Where a first-time adopter takes advantage of the exemptions in paragraph 36–43 which allow a three-year transitional relief period to not recognize and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognized and/or measured in accordance with this IPSAS.**

147. The reconciliation presented in accordance with paragraph 146 provides sufficient detail to enable users to understand which items have been recognized and/or measured during the reporting period where the first-time adopter adopts one or more of the exemptions that provide a three-year transitional relief period to not recognize and/or measure an item. The reconciliation explains the adjustments to the previously reported statement of financial position and, where applicable, the previously reported statement of financial performance in each period when new items are recognized and/or measured in accordance with this IPSAS.

Disclosures where Deemed Cost is Used for Inventory, Investment Property, Property, Plant and Equipment, Intangible Assets, Right-of-Use Assets, Financial Instruments or Service Concession Assets

148. **If a first-time adopter uses current value measurement basis as deemed cost for inventory, investment property, property, plant, and equipment, intangible assets, right-of-use assets, financial instruments, or service concession assets, its financial statements shall disclose:**

(a) **The aggregate of those current values that were considered in determining deemed cost;**

(b) **The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and**

(c) **Whether the deemed cost was determined on the date of adoption of IPSAS or during the period of transition.**

Disclosures Where Deemed Cost is Used for Investments in Controlled Entities, Joint Ventures or Associates

149. **If a first-time adopter uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, joint venture or associate in its separate financial statements, its separate financial statements shall disclose:**

(a) **The aggregate deemed cost of those investments for which deemed cost is fair value; and**

(b) **The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.**

150. **The disclosure requirements required in paragraph 148 and 149 shall be disclosed in each period when new items are recognized and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

Exemptions from Disclosure Requirements in IPSAS During the Period of Transition

151. **To the extent that a first-time adopter takes advantage of the exemption that provides a three year relief period to not recognize and/or measure items, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1, IPSAS 18 and/or the applicable IPSAS until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).**

152. **Notwithstanding the transitional provision in paragraph 151, a first-time adopter is encouraged to disclose the information required by IPSAS 1, IPSAS 18 and/or the applicable IPSAS as soon as possible.**

Current Value Measurement

152A. **An entity shall disclose information that helps users of its financial statements assess the assets or liabilities that are measured at current operational value or fair value on a non-recurring basis in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.**

152B. To meet the objectives in paragraph 152A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 152A, an entity shall disclose additional information necessary to meet those objectives.

152C. To meet the objectives in paragraph 152A, an entity shall disclose, at a minimum, the following information for each class of assets or liabilities measured at current operational value or fair value (including measurements based on current operational value or fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) For non-recurring current operational value or fair value measurements, the current operational value or fair value measurement at the end of the reporting period, and the reasons for the measurement. Non-recurring current operational value or fair value measurements of assets or liabilities are those that this Standard requires or permits in the statement of financial position in particular circumstances.

(b) For non-recurring current operational value or fair value measurements, whether the current operational value or fair value measurements are estimated using observable or unobservable inputs, and the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3), or of the current operational value estimated using unobservable inputs.

(c) For non-recurring current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity.

(d) For non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, or for non-recurring current operational value measurements estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period).

152D. An entity shall determine the appropriate disaggregation of assets or liabilities on the basis of the following:

(a) The nature, characteristics and risks of the assets or liabilities; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the current operational value or fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of assets or liabilities for which disclosures about current operational value or fair

value measurements should be provided requires judgment. Assets or liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an asset or a liability, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

152E. For each class of assets or liabilities not measured at current operational value or fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 152C(b), (c) and (d). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using unobservable inputs, required by paragraph 152C(c). For such assets or liabilities, an entity does not need to provide the other disclosures required by this Standard.

152F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Transitional Provisions

153. **Where a first-time adopter has adopted the existing transitional provisions in other accrual basis IPSAS, it shall continue to apply those transitional provisions until they expire and/or the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). If the first-time adopter elects to adopt the transitional exemptions in this IPSAS, the relief period applied in adopting accrual basis IPSAS, may not be longer than the relief period provided in this IPSAS.**

Effective Date and Transition

154. **A first-time adopter shall apply this Standard if its first IPSAS financial statements are for a period beginning on or after January 1, 2017. Earlier application is permitted.**

154A. **Paragraphs 7 and 8 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

154B. **Paragraphs 36, 102, 104 and 105 were amended and paragraphs 106 and 107 were deleted by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

154C. **Paragraphs 86, 129, 130 and 132 were amended and paragraphs 62A–62C were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

154D. **Paragraphs 36, 64, 72, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122 and 124 were amended and paragraphs 114A, 119A, 119B, 119C, 119D, 122A, 122B, 122C, and 122D were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity**

applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.

154E. **Paragraphs 78, 79, 123 and 142 were amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted.**

154F. **Paragraph 85A was added by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply the amendments to IPSAS 4 included in *Improvements to IPSAS, 2018* at the same time.**

154G. **Paragraph 36 was amended and paragraphs 134A and 134B were added by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 42 at the same time.**

154H. **Paragraph 113 was amended, paragraph 113A was added and paragraph 114 was deleted by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.**

154I. **Paragraph 85B was added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies this amendment for an earlier period, it shall disclose that fact.**

154J. **Paragraphs 36, 46, 47, 64, 95, and 148, and the headings above paragraphs 46, 95, and 148 were amended, paragraph 96 was deleted, and paragraphs 96A, 96B, 96C, and 96D were added by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

154K. **Paragraph 131A and the associated heading were added by IPSAS 44 issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

154L. **Paragraphs 36, 48, 49, 64, 66, 67, and 129 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

154M. **Paragraphs 9, 64–72, 96B, and 148 were amended and paragraphs 41B, 64A, and 152A–152F were added by IPSAS 46, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

154N. **Paragraphs 32, 41, and 42 and 43 and their related heading were amended by IPSAS 47, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

154O. **Paragraphs 41A, 43A and 43B were added by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026 it shall disclose that fact and apply IPSAS 48 at the same time.**

154P. **Paragraphs 62D and 62E were added by IPSAS 50, issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2027, it shall disclose that fact.**

154Q. **Paragraphs 62F and 62G were added by *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

154R. **Paragraphs 62H and 62I were added by IPSAS 51, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

Appendix A

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

Background

BC1. Prior to the development of IPSAS 33, there was no Standard that addresses issues arising from the first-time adoption of IPSAS. As a result, the IPSASB approved a project in June 2011 to develop a comprehensive set of principles to be used by entities on the adoption of accrual basis International Public Sector Accounting Standards (IPSAS).

BC2. While this IPSAS has Implementation Guidance, it is not within the scope of this project to develop more detailed practical guidance on the first-time adoption of IPSAS. The IPSASB is of the view that because specific issues relating to first-time adoption are likely to vary from one jurisdiction to the next, and because the starting point for first-time adopters varies depending on their previous basis of accounting, individual jurisdictions need to play a role in the development of additional implementation guidance to assist first-time adopters in their transition to accrual basis IPSAS.

BC3. This IPSAS addresses the transition from either a cash basis, or an accrual basis under another reporting framework, or a modified version of either the cash or accrual basis of accounting. Consequently, the IPSASB agreed that the project is not an IFRS convergence project.

BC4. The IPSASB did, however, consider the transitional exemptions included in IFRS 1 *First-time Adoption of International Financial Reporting Standards,* as well as the transitional provisions included in the existing suite of IPSAS, in developing this IPSAS.

BC5. In developing this IPSAS, the IPSASB agreed that, because this IPSAS is not a convergence project, all the transitional provisions and exemptions should be included in a single pronouncement. In comparison with IFRS 1, the IPSASB agreed that no transitional provisions and exemptions should be included as appendices, as this could be confusing to the preparers of the financial statements if the provisions and exemptions are dispersed all over the Standard.

BC6. The transitional exemptions provided in this IPSAS will replace many of the transitional provisions in IPSAS once they are applied.

BC7. When the IPSASB issues new pronouncements, it will consider specific transitional provisions to be included in this IPSAS that will provide relief to a first-time adopter. Transitional provisions for entities already applying accrual basis IPSAS will be included in the new pronouncements that are developed.

Scope

BC8. This IPSAS applies when an entity first adopts accrual basis IPSAS for the first time and during the period that it transitions to accrual basis IPSAS to the extent that it has adopted one or more of the transitional exemptions and provisions in this IPSAS. This IPSAS provides relief to a first-time adopter in presenting its financial statements, and allows a first-time adopter certain voluntary exemptions during the period of transition.

BC9. This IPSAS requires an entity to comply with each effective IPSAS on the date of adoption, but grants limited exemptions from requirements in certain areas where the benefits to users of financial statements are less than the cost of complying with those requirements. Retrospective application of some IPSAS is prohibited, particularly where they require judgment by management about past conditions.

BC10. The exemptions provided in this IPSAS may override some of the requirements in existing accrual basis IPSAS during the transition to accrual basis IPSAS.

BC11. The date of adoption of accrual basis IPSAS is the start of the reporting period in which the first-time adopter elects to adopt accrual basis IPSAS. If, on the date of adoption of accrual basis IPSAS the first-time adopter elects to apply one or more of the voluntary exemptions or provisions that affect fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS, the first-time adopter will present transitional IPSAS financial statements during the period of transition. At the end of the transitional period the first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS in order to assert compliance with accrual basis IPSAS as required in IPSAS 1, *Presentation of Financial Statements,* even though the date of adoption of accrual basis IPSAS may have been at an earlier point.

BC12. If, however, on the date of adoption of accrual basis IPSAS the first-time adopter elects not to apply one or more of the exemptions or provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSAS, the first-time adopter can present IPSAS financial statements during the period of transition. IPSAS financial statements are financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis IPSAS. If a first-time adopter does not adopt the exemptions in this IPSAS that affect fair presentation and compliance with accrual basis IPSAS, its first financial statements following the adoption of accrual basis IPSAS may also be its first IPSAS financial statements.

Developing Criteria to Develop and Assess Transitional Exemptions

BC13. In developing the transitional exemptions in this IPSAS, the IPSASB developed a set of criteria based on what user information needs are likely to be on the adoption of and transition to accrual basis IPSAS as set out in Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)*. These criteria were used to evaluate these transitional provisions, along with an assessment of the qualitative characteristics, and constraints on, information included in GPFRs as outlined in Chapter 3 of the *Conceptual Framework*. The results of these evaluations are included in paragraphs BC14 to BC19.

BC14. In developing requirements for the first-time adopter's opening statement of financial position and in considering the transitional exemptions, the IPSASB referred to the objective of financial statements, as set out in Chapter 2 of the *Conceptual Framework.*

BC15. Chapter 2 of the *Conceptual Framework* states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in providing information for accountability and decision-making purposes.

BC16. Chapter 3 of the *Conceptual Framework* also identifies qualitative characteristics of information included in the general purpose financial reports (GPFRs) of public sector entities. These qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information included in GPFRs are materiality and cost-benefit.

Criteria Used to Develop the Transitional Exemptions

Fair Presentation and Compliance with IPSAS

BC17. IPSAS 1 requires that an entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes to the financial statements. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS. Due to the complexity of issues relating to the first-time adoption of IPSAS, the IPSASB agreed that relief should be provided in certain instances. The IPSASB however agreed that some relief will affect the fair presentation of a first-time adopter's financial statements and the ability to assert compliance with accrual basis IPSAS.

BC18. The IPSASB agreed that there should be a differentiation between those transitional exemptions which do not affect fair presentation of a first-time adopter's financial statements and those that do. The IPSASB also agreed that, structuring the Standard in this way will give preparers a better understanding of the affect that the various transitional provisions and exemptions will have on their financial statements during the period of transition. Following the differentiation the IPSASB agreed that first-time adopters should be alerted to the fact that they will not be able to assert compliance with accrual basis IPSAS as required by IPSAS 1 if they adopt certain exemptions provided in this IPSAS.

BC19. The IPSASB agreed that where a first-time adopter takes advantage of the exemptions that affect fair presentation and compliance with accrual basis IPSAS, it will not be able to make an unreserved statement of compliance with accrual basis IPSAS until such time as the exemptions that provided the relief have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier).

BC20. Following comment received on the proposed IPSAS on *First-time Adoption of Accrual Basis IPSAS*, the IPSASB agreed to clarify that a first-time adopter should apply judgment in assessing to what extent the transitional exemptions and provisions adopted affect fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSAS. Where a first-time adopter elects to apply one or more of the transitional exemptions and provisions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS, the first-time adopter may still conclude that fair presentation is achieved because the recognition and/or measurement of the item, transaction or event that are exempted is not significant in relation to the financial statements as a whole. Applying judgment to assess the significance of the transitional exemption and provision adopted in relation to the financial statements as a whole needs to be assessed based on the first-time adopter's specific circumstances.

BC21. The IPSASB agreed that the financial statements presented at the end of the first reporting period where a first-time adopter takes advantage of one of more of the transitional exemptions that affect fair presentation and compliance with accrual basis IPSAS, should be referred to as the transitional IPSAS financial statements. This is because the first-time adopter will not be able to make an explicit and unreserved statement of compliance with IPSAS while applying the exemptions in this IPSAS that affect the fair presentation of the financial statements and a first-time adopter's ability to assert compliance with accrual basis IPSAS.

BC22. To provide relevant information during the transition to accrual basis IPSAS disclosures to inform users about the transitional exemptions adopted by a first-time adopter, and how it transitions from its previous basis of accounting to accrual basis IPSAS.

BC23. The IPSASB noted that, as part of a first-time adopter's transition to accrual accounting, an implementation plan should be developed so as to assess the first-time adopter's progress reporting under accrual basis IPSAS. Disclosures on the progress towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue and/or expenses in accordance with this plan will provide useful information to the users of financial statements in understanding how and by when the first-time adopter intends to comply in full with the requirements of all the applicable IPSAS.

Presentation of Information on First-Time Adoption

Presenting Comparative Information Following the Adoption of Accrual Basis IPSAS

BC24. The IPSASB considered whether comparative information should be required on the adoption of IPSAS, as the existing transitional provisions in IPSAS 1, *Presentation of Financial Statements* do not require comparative information in respect of the financial statements in which accrual accounting is first adopted in accordance with IPSAS.

BC25. In considering the cost-benefit criterion, the IPSASB confirmed that the current approach in IPSAS 1 for the presentation of comparative information should be retained to promote the adoption of accrual IPSAS. This IPSAS therefore only encourages the provision of comparative information, with no requirement that a first-time adopter should provide comparative information in its first transitional IPSAS financial statements, or first IPSAS financial statements.

BC26. Where a first-time adopter elects to not present comparative information, the IPSASB agreed that, as a minimum, a first-time adopter's first transitional IPSAS financial statements, should include one statement of financial position and an opening statement of financial position at the date of adoption of accrual basis IPSAS.

BC27. Where an entity elects to present comparative information, the IPSASB agreed that a first-time adopter should present one statement of financial position with comparative information for the preceding period and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSAS.

BC28. As the adoption of the three year transitional relief period also affects the presentation of comparative information, the IPSASB agreed that where the first-time adopter takes advantage of any of the transitional relief periods permitted, it should only adjust comparative information for the year following the date of adoption of accrual basis IPSAS when information is available about the items that were recognized and/or measured during that period. Comparative information will thus only be adjusted retrospectively to the extent that the information is available.

BC29. A first-time adopter shall apply the requirements in IPSAS 1 relating to the disclosure of comparative information after it has presented its first IPSAS financial statements.

Presenting a Reconciliation Following the Adoption of Accrual Basis IPSAS

BC30. In considering what information would be useful to users of the financial statements in relation to the first-time adoption of IPSAS, the IPSASB agreed that a reconciliation should be presented in the notes to the transitional IPSAS financial statements, or first IPSAS financial statements. The presentation of a reconciliation provides an important link between the information previously presented under the first-time adopter's previous basis of accounting, and the information prepared using IPSAS. The purpose of the reconciliation is to illustrate the adjustments that are necessary to conform with the requirements of accrual basis IPSAS, and how the transition from the previous basis of accounting to IPSAS affected the first-time adopter's reported financial position, financial performance and cash flows. This information will be useful to the users of financial statements.

BC31. The IPSASB considered two types of reconciliations that could be presented – the first one reconciling opening balances as at the date of adoption of IPSAS, and the second a reconciliation reconciling the end of the latest period presented in the first-time adopter's most recent annual financial statements in accordance with its previous basis of accounting.

BC32. The IPSASB concluded that the latter option will be too onerous and that the cost of presenting the reconciliation, outweighs the benefit. It was also concluded that users will not likely make use of such reconciliations and that the information will not have predictive value.

BC33. As a result, it was agreed that a first-time adopter should only present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSAS for the opening statement of financial position. The information should be presented in the notes to the transitional IPSAS financial statements, or the first IPSAS financial statements.

BC34. If a first-time adopter previously applied a cash basis of accounting it would not have presented net assets/equity. The IPSASB therefore agreed that if a first-time adopter's previous basis of accounting is cash, it is not required to present a reconciliation.

BC35. To meet the qualitative characteristics of relevance, understandability and comparability during the period of transition where a first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of assets and/or liabilities, the IPSASB considered whether a first-time adopter should be required to present a reconciliation at different points during its transition to accrual basis IPSAS.

BC36. The IPSASB agreed that where a first-time adopter takes advantage of any of the transitional relief periods permitted, it should present a reconciliation of items that have been recognized and/or measured during the reporting period when these items have not been recognized and/or measured in the previous reported financial statements. This reconciliation should be presented in addition to the reconciliation that is presented to explain differences between the first-time adopter's previous basis of accounting and those items that are recognized and/or measured in accordance with IPSAS in the opening statement of financial position.

Presenting a Comparison of Budget and Actual Information in a First-time Adopter's Financial Statements

BC37. The IPSASB debated whether a first-time adopter should be required to present a comparison of budget and actual information following the adoption of accrual basis IPSAS, and whether such information is useful to the users of the financial statements.

BC38. The IPSASB considered that if a first-time adopter prepares its budget on the cash-basis of accounting after the adoption of IPSAS, presenting this comparison in its transitional IPSAS financial statements, or its first IPSAS financial statements could be onerous. The IPSASB, however, agreed that such a comparison should be included in a first-time adopter's financial statements, as the comparison is a unique feature of IPSAS and promotes accountability and decision-making.

Presenting a Cash Flow Statement in a First-time Adopter's Financial Statements

BC39. During the comment period, respondents requested the IPSASB to consider providing transitional exemptions and provisions for the preparation of the cash flow statement where a first-time adopter elects to adopt a three year relief period for the recognition and/or measurement of certain assets and/or liabilities. Respondents noted that it did not seem appropriate to present a cash flow statement when the statement of financial position is incomplete.

BC40. The IPSASB confirmed its previous decision to not provide any transitional relief as, during the transitional period, users still need cash flow information on: (a) the sources of cash inflows: (b) the items on which cash was expensed during the reporting period; and (c) the cash balance as at the end of the reporting period.

Alignment of Accrual IPSAS and Government Finance Statistics Reporting

BC41. As the objective of this Standard is to provide a suitable starting point for accounting in accordance with accrual basis IPSAS it does not provide specific guidance to a first-time adopter on alignment of GFS reporting and accrual basis IPSAS. In its Consultation Paper, *Alignment of IPSAS and Government Finance Statistics Reporting Guidelines: Resolution of Differences through Convergence and Management*, the IPSASB discusses where guidance on GFS alignment options within the suite of IPSASB's pronouncements will be best addressed. By choosing Government Finance Statistics (GFS) aligned policy options on the first-time adoption of accrual IPSAS, a first-time adopter may facilitate production of high quality and timely data for inclusion in their GFS reports.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

BC42. When an entity first adopts IPSAS, it may not have comprehensive information about the existence of all the assets under its control, and may require a period of time to obtain and compile appropriate records to account for such assets. As this is relevant to entities that previously did not apply the accrual basis of accounting, it is likely that these entities will require considerable effort to recognize, measure and/or classify their assets in accordance with IPSAS.

BC43. In considering the relief that should be provided to a first-time adopter for the recognition of its assets when this Standard was issued, the IPSASB had considered the then existing five year relief period in IPSAS 17. To encourage entities to prepare for the adoption of IPSAS in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB had agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSAS and not solely rely on the relief period provided in this IPSAS, the IPSASB was of the view that the three year transitional period was more manageable, and would reduce the period over which entities would not be able to assert compliance with IPSAS. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

BC44. The IPSASB agreed that prescribing a relief period in this IPSAS, rather than allowing each jurisdiction to prescribe their own transitional period, reduces inconsistencies between jurisdictions. The credibility and comparability of financial statements during the period of transition will also be enhanced.

BC45. The IPSASB confirmed that the relief provided in this IPSAS should not be seen as a complete roadmap for the adoption of accrual basis IPSAS, but rather the end stage of their adoption process. The relief period of three years provided in this IPSAS is aimed at providing relief to a first-time adopter to assist with the final conversion to accrual basis IPSAS. Prior to the adoption of this IPSAS, a first-time adopter should adequately prepare for its transition to accrual basis IPSAS. The complexity and length of the transition will depend on its previous basis of accounting. The three year relief period should not be seen as the entire adoption phase.

BC46. The guidance in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* issued by the IPSASB may assist a first-time adopter in planning their conversion to accrual basis IPSAS, prior to adoption of this IPSAS.

BC47. The IPSASB proposed that a relief period of three years should be provided for the following assets:

(a) Investment property;

(b) Property, plant and equipment;

(c) Biological assets and agricultural produce;

(d) Intangible assets; and

(e) Service concession assets.

BC48. Following comment received on this proposed IPSAS, the IPSASB agreed to also allow a relief period for the recognition and/or measurement of inventory. The IPSASB agreed that, even though inventory is a current asset which is realised, consumed, sold or used in an entity's operating cycle, a first-time adopter may need time to identify and classify its assets appropriately between inventory, investment property or property, plant and equipment, particularly in respect of land. Inventory may also comprise specialized assets or high volumes of items, e.g. medical supplies, for which additional time may be required for appropriate classification.

BC49. In considering whether a relief period should be allowed for the recognition of biological assets and agricultural produce, the IPSASB noted that these assets and activities may be limited in some jurisdictions while they may be more significant in other jurisdictions, for example, developing countries. On balance, the IPSASB agreed that a three year relief period should be provided for the recognition of biological assets and agricultural produce to assist those jurisdictions where this is a significant issue.

BC50. IPSAS 5 allows a first-time adopter to either adopt the benchmark treatment or the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. When a first-time adopter elects to apply the allowed alternative treatment, there may a timing difference between the capitalization of borrowing costs on qualifying assets where the first-time adopter takes advantage of the three year transitional relief period to not recognize certain assets. To address this timing difference, and because it might not be practical to obtain information on borrowing costs incurred prior to the recognition of the asset where the first-time adopter takes advantage of the three year transitional exemption period, the IPSASB agreed that a first-time adopter should not be required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of accrual basis IPSAS. Based on comment received from respondents on the proposed Exposure Draft, the IPSASB also agreed that any borrowing costs incurred during the period of transition should also not be capitalized until the exemptions that provided the relief have expired and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

BC51. After comment received on the proposed IPSAS, the IPSASB also agreed that a first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories are permitted in the applicable IPSAS.

Transitional Exemptions relating to the Measurement of Non-Financial Assets

BC52. The IPSASB acknowledged that some entities may have recognized non-financial assets under their previous basis of accounting. The IPSASB therefore agreed that a three year transitional relief period should be allowed for the measurement of all non-financial assets that were recognized by a first-time adopter under its previous basis of accounting. During this transitional period, a first-time adopter will be able to develop reliable models for applying the principles in the IPSAS. During the transitional period the first-time adopter will not be required to change its accounting policy in respect of the measurement of these assets.

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSAS

BC53. Where a first-time adopter takes advantage of one or more of the transitional exemptions relating to the recognition of assets, it would, as part of this process, analyze title deeds, contracts and other similar arrangements, including lease arrangements, in determining what assets should be accounted for and their measurement. As a result, a first-time adopter may not be in a position to account for finance lease liabilities related to finance lease assets until such time as the transitional relief period provided has expired and/or the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

BC54. Likewise, where a first-time adopter has elected to adopt the transitional relief provided for the recognition of service concession assets in accordance with IPSAS 32, it will not be in a position to account for the related liability under either the financial liability model or the grant of a right to the operator model until such time as the transitional relief period provided has expired and/or the relevant assets are recognized and/or measured in accordance with IPSAS 32 (whichever is earlier).

BC55. The IPSASB agreed that the recognition of finance lease liabilities and the recognition and/or measurement of liabilities related to service concession assets should also be delayed until the relief period related to the relevant assets have expired and/or the applicable assets have been recognized and/or measured.

Recognition of Provisions Included in the Initial Cost of Property, Plant and Equipment

BC56. The IPSASB concluded that no transitional relief period should be provided for provisions in IPSAS 19 and that a first-time adopter should account for all its liabilities on the date of adoption of IPSAS. The IPSASB, however, acknowledges that the delay in the recognition and/or measurement of property, plant and equipment affects the recognition and/or measurement of certain provisions which are included in the cost of such assets.

BC57. When this Standard was issued, IPSAS 17 required an entity to include, as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17 required that the obligation for costs accounted for in accordance with IPSAS 17 was recognized and measured in accordance with IPSAS 19.

BC58. The IPSASB had agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time as the relevant item of property, plant, and equipment was recognized and/or measured in accordance with IPSAS 17. A transitional relief period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

IPSAS 39, *Employee Benefits*

BC59. The IPSASB acknowledged that the recognition and/or measurement of specific liabilities in IPSAS 39, will be challenging for many public sector entities as new systems may be required and/or existing systems may need to be upgraded. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of assets and liabilities related to defined benefit plans and other long-term employee benefits. To avoid a skewed statement of financial position, the IPSASB further agreed that any plan assets should be recognized and/or measured at the same time as the liabilities. All other employee benefits should be recognized and/or measured on the date of adoption of IPSAS.

BC60. [Deleted]

IPSAS 42, *Social Benefits*

BC60A. The IPSASB issued IPSAS 42, *Social Benefits*, in January 2019. The IPSASB acknowledged that the recognition and/or measurement of liabilities related to social benefits may be challenging for some public sector entities. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of liabilities related to social benefits.

Transitional Exemptions Relating to the Recognition and Measurement of Monetary Assets and/or Liabilities

IPSAS 41, *Financial Instruments*

BC61. The existing transitional provisions in IPSAS 41 do not provide any relief to a first-time adopter for the recognition and/or measurement of financial instruments. Because many public sector entities will need some time to identify and appropriately classify their financial instruments, the IPSASB agreed that a transitional relief period should be provided to a first-time adopter for the recognition and/or measurement of financial

instruments. A transitional relief period of three years was granted in line with the relief period provided for the recognition and/or measurement of other items.

BC62. The IPSASB, however, agreed that a distinction should be made between those entities that previously recognized financial instruments and those that did not. The IPSASB was of the view that many basic financial instruments such as cash, debtors and creditors are already recognized by public sector entities. A three year relief period for the recognition of financial instruments that have not been recognized under a first-time adopter's previous basis of accounting, is therefore provided.

BC63. As with non-monetary assets, the IPSASB agreed that the same principle should be applied to the recognition and/or measurement of monetary assets and/or liabilities, i.e. to the extent that a first-time adopter has recognized financial instruments under its previous basis of accounting, the IPSASB agreed that a three year relief period should be granted for the measurement and classification of financial instruments following the date of adoption of IPSAS. During this transitional period, a first-time adopter will be able to develop reliable models for applying the principles in IPSAS 41. It would also be allowed to apply accounting policies for the measurement of financial instruments that differs from the requirements in IPSAS 41 during the period of transition.

Transitional Exemptions Relating to the Recognition and Measurement of Revenue

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IPSAS 47, *Revenue*

BC64. When this Standard was developed, the existing transitional provisions in IPSAS 23 allowed a first-time adopter to not change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also allowed a first-time adopter to not change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also required that changes in accounting policies should only be made to better conform to IPSAS 23.

BC65. The IPSASB concluded that it would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of the accrual basis. In line with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSAS, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23 at the time this Standard was developed, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSAS. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

BC65A. IPSAS 47, *Revenue*, was issued in May 2023 and replaced IPSAS 9, IPSAS 11, *Construction Contracts*, and IPSAS 23, and requires an entity to identify and account for revenue based on whether it arises from a binding arrangement rather than by its classification as exchange or non-exchange. In its development, the IPSASB noted that it will be similarly challenging for public sector entities to implement IPSAS 47. The accounting for revenues without binding arrangements, which will encompass most non-exchange transactions previously in the scope of IPSAS 23, would continue to pose practical challenges. The accounting for revenues arising from binding arrangements (which may include both exchange or non-exchange revenues) may also require complex models, and new systems, processes, or internal controls. Consequently, the IPSASB concluded

that the three-year transitional exemption should also be available for revenues accounted for in accordance with IPSAS 47 in order to provide transition relief for first-time adopters.

Exemptions from Presentation and/or Disclosure Requirements Where a First-time Adopter Takes Advantage of the Exemptions that Provide a Three Year Transitional Relief Period

BC66. The IPSASB acknowledged and agreed that the three year exemption provided for the recognition and/or measurement of assets and/or liabilities also implies that the associated presentation and/or disclosure requirements in the applicable IPSAS do not need to be complied with as the information will not be available. The IPSASB agreed that the information need not be provided until the exemptions that provided the relief have expired or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

BC67. For the same reason, the IPSASB agreed that a first-time adopter should not be required to provide any related disclosure requirements in IPSAS 1, *Presentation of Financial Statements* and IPSAS 18, *Segment Reporting.*

IPSAS 5, *Borrowing Costs*

BC68. The existing transitional provisions in IPSAS 5 encouraged a first-time adopter to adjust its financial statements retrospectively if it did not recognize borrowing costs under its previous basis of accounting. The IPSASB agreed that it does not want to provide more relief to a first-time adopter than to those entities that already apply IPSAS, particularly where the first-time adopter elects to adopt the allowed alternative treatment under which borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the cost of an asset.

BC69. As a result, the IPSASB agreed that a first-time adopter should only be encouraged to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment. Providing this relief was seen a necessary because obtaining information retrospectively may be costly and considerable effort may be needed to obtain such information.

BC70. The IPSASB, however acknowledged that some information may be available to a first-time adopter depending on its previous basis of accounting. It was therefore agreed that a first-time adopter who adopted or changed its accounting policy to the benchmark treatment, should apply the principles in IPSAS 5 prospectively, but it may designate a date before the date of adoption of IPSAS in applying IPSAS 5. This relief can only be adopted to the extent that the information is available.

BC71. The IPSASB does not want to encourage first-time adopters to adopt the allowed alternative treatment. Therefore it was agreed that where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred on qualifying assets both before and after the date of adoption of IPSAS, for which the commencement date for capitalization is prior to the date of adoption of IPSAS, should be recognized retrospectively where the first-time adopter has not taken advantage of the transitional relief to not recognise and/or measure assets for a period of three years.

IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* and IPSAS 36, *Investments in Associates and Joint Ventures*

BC72. The IPSASB considered whether it should provide transitional relief that allows a first-time adopter to not present consolidated financial statements on adoption of IPSAS. In considering this proposal, it was argued that providing such an exemption would contradict the concept of a reporting entity and would not result in fair presentation.

BC73. The IPSASB therefore agreed that providing a relief period to not present consolidated financial statements should not be provided, but instead, a first-time adopter should be given a three year relief period from eliminating balances, transactions, revenues and expenses between entities within the economic entity.

BC74. As some balances, transactions, revenues and expenses may be known on adoption of IPSAS, a first-time adopter is encouraged to eliminate only those known balances, transactions, revenues and expenses.

BC75. For the same reason, the IPSASB agreed that a similar exemption should also be provided where a first-time adopter has one or more jointly controlled entity in terms of IPSAS 8, and where it has one or more associate in terms of IPSAS 7.

Providing a three-year relief for the initial recognition and/or measurement of interests in other entities

BC76. Following comments received on Exposure Draft, the IPSASB agreed that relief should be provided to a first-time adopter for the initial recognition and/or measurement of its interests in other entities. This relief would allow those first-time adopters that have not gathered the necessary information on the date of adoption, more time to appropriately classify and measure their interests in other entities. The relief provided is consistent with that provided for financial instruments.

Presenting consolidated financial statements where the three-year relief is adopted for the initial recognition and/or measurement of interests in other entities and/or to not eliminate inter-entity balances, transactions, revenue and expenses

BC77. Some respondents to the Exposure Draft expressed a view that relief should be provided from preparing consolidated financial statements where a first-time adopter has elected to not eliminate some, or all of the inter-entity balances, transactions, revenue and expenses between entities within the economic entity. The IPSASB concluded that the financial statements that are presented where a first-time adopter has taken advantage of the three year relief for the initial recognition and/or measurement of interests in other entities, and/or where it has elected to not eliminate some, or all inter-entity balances, transactions, revenue and expenses, cannot be presented as consolidated financial statements, until (a) the exemptions that provided the relief have expired, and/or (b) inter-entity balances, transactions, revenue and expenses have been eliminated, and/or (c) its interests other entities have been recognized and/or measured appropriately. The IPSASB agreed that disclosure requirements should be added to explain to users why the financial statements are not presented as consolidated financial statements.

BC78. The IPSASB agreed that providing this clarification is necessary because, where a first-time adopter has not eliminated inter-entity balances, transactions, revenue and expenses as required by IPSAS 35 preparing consolidated financial statements will merely be an aggregation of inter-entity balances, transactions, revenue and expenses within the economic entity. Such statements would not be useful for accountability and decision-making purposes.

BC79. Likewise eliminating the carrying amount of an investment in the controlled entity as required by IPSAS 35 may not be possible if the first-time adopter has not recognized and/measured its interest in other entities as required by the applicable IPSAS.

IPSAS 40, *Public Sector Combinations*

BC79A. In developing IPSAS 40, *Public Sector Combinations*, the IPSASB considered whether it should provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination. The IPSASB noted that IPSAS 40 is applied prospectively, and so its application would not require a first-time adopter to adjust their accounting for a public sector combination that occurred prior to the application of that Standard. However, a public sector combination could occur during a first-time adopter's three year transitional relief period. The IPSASB

considered that requiring a first-time adopter to recognize and measure all the assets and liabilities associated with a public sector combination without requiring them to recognize and measure all similar assets and liabilities would not provide useful information for the users of the financial statements.

BC79B. Consequently, the IPSASB agreed to provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination as part of this Standard. The IPSASB also agreed that a first-time adopter should not recognize goodwill where it did not recognize and/or measure all the assets and/or liabilities associated with a public sector combination.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Deemed Cost

Deemed Cost for Assets and/or Liabilities

BC80. Some measurements in accordance with IPSAS are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly and/or impractical. To avoid excessive cost, this IPSAS allows a first-time adopter to use the fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the historical cost model in IPSAS 16, property, plant, and equipment, financial instruments and service concession assets at the date of adoption of IPSAS. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the fair value is the deemed cost at the date at which the asset is recognized and/or measured during the period of transition.

BC81. While it could be argued that the use of fair value would lead to a lack of comparability, the IPSASB noted that cost is generally equivalent to fair value at the date of acquisition. Therefore, the use of fair value as the deemed cost of an asset means that a first-time adopter reports the same cost data as if it had acquired an asset with the same value or same remaining service potential at the date of adoption of IPSAS. If there is any lack of comparability, it arises from the aggregation of costs incurred at different dates, rather than from the use of fair value as deemed cost for some assets at a date. In the view of the IPSASB, using deemed cost facilitates the introduction of IPSAS in a cost-effective way.

BC82. When this Standard was issued, under the revaluation model in IPSAS 17, if an entity revalued an asset, it had to revalue all assets in that class. This restriction prevented selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, *Impairment of Non-cash-generating Assets* and IPSAS 26, *Impairment of Cash-generating Assets* required an impairment test if there was any indication that an asset was impaired. Thus, if a first-time adopter used fair value as deemed cost for assets whose fair value was likely to be above cost, it could not ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing IPSAS 45, the IPSASB noted that these principles are still applicable when current operational value or fair value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

BC83. The IPSASB also considered the circumstances under which a first-time adopter should be allowed to determine a deemed cost on initial adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets. The IPSASB considered whether the use of a deemed cost should be restricted to those situations where cost information is not available for assets, or whether it should be allowed in all circumstances, irrespective of whether cost information is available on the date of adoption of IPSAS, or the date on which the asset is

recognized and/or measured where a first-time adopter has taken advantage of the exemption that provides a three year transitional relief period to not recognize and/or measured certain assets.

BC84. The IPSASB agreed that, to avoid the selective valuation of assets, the use of a deemed cost should be restricted to those circumstances where reliable information about the historical cost of the asset is not available.

BC84A. As part of the development of IPSAS 46, *Measurement*, additional guidance on deemed cost was developed. This guidance was developed to clarify the application of deemed cost in practice. Measurement guidance in IPSAS 46 is generic in nature and was developed to supplement specific guidance in specific IPSAS. The deemed cost guidance in IPSAS 46 was developed to be consistent with the existing guidance in this Standard. However, where specific deemed cost guidance in this Standard exists, it takes precedent over the generic guidance in IPSAS 46.

Deemed Cost for Investments in Controlled Entities, Joint Ventures or Associates

BC85. The IPSASB also agreed that a first-time adopter may elect to measure an investment in a controlled entity, joint venture or associate at cost in its separate financial statements on the date of adoption of IPSAS at either cost as determined in accordance with IPSAS 6, or deemed cost. Deemed cost is determined as fair value in accordance with IPSAS 41, *Financial Instruments*.

Deemed Cost for Intangible Assets

BC86. In considering whether a first-time adopter should be allowed to determine a deemed cost for intangible assets, the IPSASB considered the existing transitional provisions in IPSAS 31. IPSAS 31 allows a first-time adopter to use a previous revaluation of intangible assets at, or before, the date of transition as deemed cost at the date of the revaluation if the revaluation is broadly comparable to fair value or cost or depreciated cost that is adjusted to reflect for example, changes in a general or specific price index. IPSAS 31, however, only allows a first-time adopter to determine a deemed cost if the recognition criteria in IPSAS 31 (including the reliable measurement of original cost), and the criteria for revaluation (including the existence of an active market), have been met.

BC87. The IPSASB debated whether public sector entities will be likely to fulfil the second criterion on initial adoption of IPSAS, i.e. existence of an active market. The IPSASB acknowledged that it may be uncommon for an active market to exist in the public sector for intangible assets, and as a consequence, the use of the deemed cost approach will likely be considerably restricted. As a result, a first-time adopter may be unable to determine a deemed cost for some intangible assets such as in-house developed IT systems.

BC88. The IPSASB considered whether the reliable measurement of original cost should be required for first-time adopters which previously applied a cash basis of accounting, as some entities might find it cumbersome to identify the original cost of their intangible assets. It was also argued that where a first-time adopter has previously applied the accrual basis of accounting and it has acquired intangible assets through a non-exchange transaction, it might not be able to reliably measure original cost.

BC89. Based on these considerations, the IPSASB concluded that the reliable measurement of the original cost should be excluded as a criterion for the application of the deemed cost approach on first-time adoption of IPSAS.

BC90. The IPSASB therefore agreed that a first-time adopter is allowed to determine a deemed cost for intangible assets where that deemed costs meets: (a) the recognition criteria in IPSAS 31 (excluding the reliable measurement criterion) and (b) the criteria in IPSAS 31 for revaluation (including the existence of an active market).

BC91. In considering whether a first-time adopter should be allowed to determine a deemed cost for internally generated intangible assets, the IPSASB concluded that it would be difficult to retrospectively assess the probability of expected future economic benefits or service potential through reasonable and supportable assumptions as management would not be able to apply hindsight in obtaining such information. Due to the absence of reliable information on the date of adoption of IPSAS, it was therefore agreed that a deemed cost may not be determined for internally generated intangible assets.

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC92. When this Standard was issued, the IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost, if previous revaluations already complied with IPSAS. This IPSAS therefore allowed a first-time adopter to use a revaluation under its previous basis of accounting for property, plant, and equipment determined at or before the date of adoption of IPSAS, as deemed cost. This was allowed to be used if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost, where appropriate, in accordance with IPSAS adjusted to reflect, for example, changes in a general or specific price index.

BC93. In determining "fair value", when IPSAS 33 was developed, the guidance in each applicable IPSAS was considered, where such guidance was provided. In IPSAS 17, it was noted that fair value was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also stated that if market-based evidence was not available to measure items of property, plant, and equipment, an entity could estimate fair value using replacement cost, reproduction cost or a service units approach. In developing IPSAS 45, the IPSASB noted that these principles have been moved to IPSAS 46, *Measurement*. In reaching this conclusion, the IPSASB noted that IPSAS 45 refers to historical cost rather than cost and uses current operational value rather than fair value.

BC94. The IPSASB noted that the fair value guidance in IPSAS 16 only considered a market-based value, and that limited guidance was provided in IPSAS 12 in determining fair value. The IPSASB concluded that because a first-time adopter may find it difficult to determine a market-based fair value for all investment properties and all inventories, other measurement alternatives may need to be considered in determining deemed cost for inventory or investment property.

BC94A. The IPSASB has since issued IPSAS 46, which provides a consistent approach to measuring fair value in all IPSAS. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, which guidance on measurement techniques that may be used where there is no observable market data. The IPSASB considered whether the continued use of measurement alternatives was appropriate and noted that the alternatives included in IPSAS 33 are consistent with measurement techniques available in IPSAS 46 to estimate fair value. The IPSASB agreed to modify the wording of IPSAS 33 accordingly.

BC95. The IPSASB agreed that a first-time adopter may consider the following measurement techniques in determining a deemed cost if observable inputs of fair value are not available on the date of adoption of IPSAS, or on the date that the asset is recognized and/or measured where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets:

(a) For inventory, current replacement cost; and

(b) For investment property of a specialized nature, depreciated replacement cost.

Determining a Deemed Cost Where the First-Time Adopter has Taken Advantage of the Three-Year Transitional Exemption Period

BC96. The IPSASB concluded that, to the extent that a first-time adopter has elected to adopt one or more of the transitional exemptions that provides relief for the recognition and/or measurement of assets, it may not be able to retrospectively adjust the value of the asset to the date of adoption of accrual basis IPSAS. Retrospectively adjusting the value of the asset would require consideration of the price of the asset and other market factors that existed on the date of adoption of accrual basis IPSAS, including whether there was any indication that the asset was impaired.

BC97. The IPSASB concluded that this would not be cost effective. It was therefore agreed that, where a first-time adopter takes advantage of the exemption which allows a three year transitional relief period to not recognize and/or measure an asset, it may determine a deemed cost for that asset at any point of time within the three year transitional relief period. Any adjustments resulting from the recognition of the asset are recognized against the opening accumulated surplus or deficit in the year in which asset is recognized and/or measured.

IPSAS 18, Segment Reporting

BC98. The IPSASB considered whether relief should be provided to a first-time adopter for the presentation of segment information. The IPSASB agreed that, despite the fact that the presentation of segment information might be useful, a first-time adopter should be provided a relief period, as the information used in presenting segment information needs to be built on existing information in the financial statements.

BC99. As the IPSASB agreed to allow a three year transitional relief period for the recognition and/or measurement of assets and liabilities, the information which is needed to present segment information may only be available when the exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). As relevant and reliable information may not be available to present a meaningful segment report during the period of transition, and because the presentation of a segment report may not be a priority for users during the transition to accrual basis IPSAS it was agreed that a three year exemption period should also be provided for the presentation of segment information.

BC100. The IPSASB also concluded that, because segment information is additional to the information required on the elements presented in the financial statements, allowing this relief is appropriate.

IPSAS 20, Related Party Disclosures

BC101. In providing a first-time adopter time to build up information on its related party relationships and related party transactions, the IPSASB agreed that the disclosure of related party relationships, related party transactions and information about key management personnel should be treated in the same way as the required eliminations of balances, transactions, revenue and expenses between entities in IPSAS 6 to 8.

BC102. This IPSAS therefore provides a transitional exemption for a period of three years for the disclosure of related party relationships, related party transactions and information about key management personnel.

IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets

BC103. The IPSASB acknowledged that a first-time adopter may have applied an accounting policy for the recognition and reversal of impairment losses that are different to the requirements in IPSAS 21 and 26, or may have not considered impairment at all. On adoption of IPSAS, it may be difficult to determine the amount of adjustments resulting from retrospective application of a change in an accounting policy, as this requires hindsight.

BC104. As a result, the IPSASB agreed that IPSAS 21 and 26 should be applied prospectively, but that the first-time adopter should be required to assess whether an indicator of impairment has been triggered for its cash-generating and non-cash-generating assets in the opening statement of financial position.

BC105. In recognizing the effect of an impairment loss on first-time adoption of IPSAS 21 or IPSAS 26, the IPSASB considered two options. The first option was to measure such assets at their recoverable amount, or recoverable service amount and use that as the deemed cost. The IPSASB noted that the effect of applying this option may means that impairment losses could not be reversed in the future. This option was therefore not seen as appropriate.

BC106. The second option, which provides more relevant information is to measure the assets at their recoverable amount, or recoverable service amount, and report the effect in net assets/equity. The IPSASB supported this option.

Timing of Impairment Test for Assets Where an Entity Adopts the Relief Period for the Recognition of Assets

BC107. The IPSASB concluded that where a first-time adopter takes advantage of the exemption that provides relief for the recognition and/or measurement of assets, it may be difficult to retrospectively adjust the value of the asset to the date of adoption of IPSAS. A first-time adopter may find it difficult to determine the amount of adjustments that would be required based on impairment that may or may not have existed at the date of transition.

BC108. The IPSASB therefore agreed that IPSAS 21 and IPSAS 26 should be applied prospectively from the date when the transitional exemptions that provided the relief have expired, or when the relevant asset is recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

IPSAS 39, Employee Benefits

BC109. In developing IPSAS 33, the IPSASB also agreed that, where a first-time adopter took advantage of the exemptions that provide relief for the recognition and/or measurement of liabilities, it should provide information about amounts for the current and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan and adjustments as required by IPSAS 25 prospectively. IPSAS 39, *Employee Benefits*, was issued in July 2016. IPSAS 39 deleted paragraph 107 of this Standard as the requirement in paragraph 141(p) of IPSAS 25 to disclose information on experience adjustments was not adopted in IPSAS 39.

IPSAS 28, Financial Instruments: Presentation

BC110. IPSAS 28 requires an entity to split a compound financial instrument at inception of the agreement, into separate liability and equity components. It was concluded that separating these two portions would be costly and would not provide relevant information to users of financial statements if the liability component of the compound instrument is no longer outstanding at the date of adoption of IPSAS. As a result, this IPSAS requires that, if the liability component is no longer outstanding at the date of adoption of IPSAS, the first-time adopter need not separate the cumulative interest on the liability component from the net assets/equity component.

IPSAS 41, Financial Instruments

BC111. The IPSASB concluded that, as it is in most instances impracticable to apply impairment principles retrospectively, the impairment of financial instruments should be applied prospectively. This exemption is consistent with the exemption provided for non-cash-generating assets and cash-generating assets in accordance with IPSAS 21 and 26.

IPSAS 30, Financial Instruments: Disclosures

BC112. The IPSASB concluded that if a first-time adopter did not disclose information relating to financial instruments, and the nature and extent of risks arising from financial instruments under its previous basis of accounting, obtaining such information may be costly, and therefore is not feasible.

BC113. The IPSASB therefore agreed that the disclosure requirements relating to financial instruments should be applied prospectively from the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial assets, when the exemptions expire, or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

BC114. To the extent that a first-time adopter elects to present comparative information, it was agreed that a first-time adopter need not present comparative information for disclosures relating to the nature and extent of risks arising from financial instruments for the comparative period because obtaining such information may be costly, and is therefore not feasible.

IPSAS 31, Intangible Assets

BC115. On first-time adoption of IPSAS, a first-time adopter will be required to recognize all assets and liabilities for which recognition is required by IPSAS. IPSAS 31 requires that past expenditure on an intangible asset that was initially recognized as an expense should not be recognized as part of the cost of an intangible asset at a later date.

BC116. The IPSASB concluded that, because a first-time adopter may have expensed costs incurred on intangible assets under its previous basis of accounting prior to the adoption of IPSAS, a first-time adopter should be allowed to recognize all intangible assets that meet the recognition criteria and other criteria in IPSAS 31 (i.e., identifiable control of an asset and that future economic benefits or service potential that are attributable to the asset will flow to the entity), even though such costs may have been expensed prior to adoption of IPSAS. It was however, confirmed that such assets should only be recognized as intangible assets if reliable cost information is available and an active market exists for that asset on the date of adoption of IPSAS.

Interests in Other Entities

BC117. The IPSASB considered whether IPSAS 33 should refer to IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates,* and IPSAS 8, *Interests in Joint Ventures,* as well as IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, and IPSAS 36, *Investments in Associates and Joint Ventures*, which were published in January 2015 with an effective date of January 1, 2017, with early adoption permitted. The IPSASB noted that as IPSAS 33 was published in January 2015, any entity adopting IPSAS 33 and electing to apply the 3 year exemptions, would be required to apply IPSAS 34–36 by the time the transitional period is complete. The IPSASB formed a view that it was very unlikely that entities adopting IPSAS 33, prior to January 1, 2017, would adopt IPSAS 6–8 as this would require a further transition to IPSAS 34–36 shortly afterwards. The IPSASB therefore concluded that IPSAS 33 should not include provisions relating to IPSAS 6-8.

Revision of IPSAS 33 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC118. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 33 as a result of Improvements to IPSAS, 2018

BC119. Following the issue of IPSAS 33, the IPSASB became aware that stakeholders were uncertain whether the exemption from providing comparative information applied to the first financial statements issued following the adoption of accrual basis IPSAS, or all financial statements issued during the transition period. Paragraph 77 referred to an entity's 'first transitional IPSAS financial statements' whereas other paragraphs referred to an entity's 'transitional IPSAS financial statements.' The IPSASB agreed to amend the other paragraphs to clarify that the exemption applies only to the first financial statements issued following the adoption of accrual basis IPSAS.

BC120. The IPSASB reviewed the requirements of IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, issued by the IASB in December 2016, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. Consequently, the IPSASB agreed to incorporate the requirements of IFRIC 22 into Appendix A of IPSAS 4. The IPSASB noted that entities are permitted to apply the requirements of Appendix A prospectively, and therefore agreed that first-time adopters need not apply the requirements to assets, expenses and revenue in the scope of Appendix A initially recognized before the date of adoption of IPSAS.

Revision of IPSAS 33 as a result of Improvements to IPSAS, 2019

BC121. The amendments to paragraphs 113, 113A and 114 update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS resulting from IPSAS 41, *Financial Instruments* which were inadvertently omitted when IPSAS 41 was issued. The IPSASB agreed to include these minor amendments in *Improvements to IPSAS, 2019.*

Revision of IPSAS 33 as a result of *COVID-19: Deferral of Effective Dates*

BC122. The IPSASB published *Improvements to IPSAS*, *2019* in January 2020, which included amendments to IPSAS 33: *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC123. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC124. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC125. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 33 as a result of Improvements to IPSAS, 2021

BC126. The IPSASB reviewed the revisions to IFRS 1, *First-time Adoption of International Financial Reporting Standards, included in Annual Improvements to IFRS® Standards* (2018-2020) issued by the IASB in May

2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments.

Revision of IPSAS 33 as a result of IPSAS 46, *Measurement*

BC127. IPSAS 46, issued in May 2023, provides generic guidance on the initial and subsequent measurement of assets and liabilities, to ensure a consistent approach across all IPSAS. Paragraph 70 of this Standard permits a first-time adopter to consider replacement cost as a measurement alternative to fair value when observable inputs are not available for inventory or investment property. Since IPSAS 46 does not identify replacement cost as measurement bases, the IPSASB consider whether it should be replaced.

BC128. Since replacement cost is retained in IPSAS 12, Inventories, and IPSAS 16, *Investment Property*, the IPSASB agreed to retain replacement cost in the context of this Standard to maintain consistency in principles between the specific requirements in individual IPSAS, and the principles on first-time adoption.

BC129. Furthermore, the IPSASB agreed to add current operational value as an alternative measurement basis to fair value for property, plant, and equipment. Current operational value was added to align the principles in this Standard with IPSAS 45, *Property, Plant, and Equipment*, which, as a result of IPSAS 45, permits measuring property, plant, and equipment at current operational value for subsequent measurement.

BC130. IPSAS 46 also provided additional generic guidance on the application of deemed cost. This guidance is consistent with the deemed cost guidance in this Standard (see BC84A).

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 33.

Date of Adoption of IPSAS

IG2. The date of adoption of IPSAS is the date an entity adopts accrual basis IPSAS for the first time in preparing its financial statements.

IG3. Prior to the adoption of this IPSAS, a first-time adopter shall have adequately prepared for its transition to accrual basis IPSAS. The guidance provided in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* issued by the IPSASB, may assist a first-time adopter with planning the conversion to accrual basis IPSAS. The relief provided in this IPSAS shall therefore not be seen as a complete roadmap for the adoption of accrual basis IPSAS, but rather the end stage of the adoption process.

IG4. A first-time adopters' date of adoption will therefore to be the start of the reporting period in which it elects to adopt accrual basis IPSAS for which it presents its transitional IPSAS financial statements or its first IPSAS financial statements. For example, an entity elects to adopt accrual basis IPSAS from January 1, 20X1 for its reporting period ending December 31,20X1. The date of adoption of IPSAS will be January 1, 20X1.

Transitional IPSAS Financial Statements

IG5. On the date of adoption of IPSAS, a first-time adopter may elect to adopt one or more of the exemptions included in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS).* Some of the exemptions included in IPSAS 33 affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSAS (Appendix A lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS and illustrates whether fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS will be affected).

IG6. As a first-time adopter is not able to make an explicit and unreserved statement of compliance with accrual basis IPSAS following the adoption of the exemptions provided in IPSAS 33, the financial statements presented for the first reporting period following the adoption of accrual basis IPSAS, will be referred to as the "transitional IPSAS financial statements".

IG7. For example, if the first-time adopter adopts the transitional exemption that provides relief for the recognition of certain items of property, plant and equipment when adopting accrual basis IPSAS on January 1, 20X1, it would not be able to make an explicit and unreserved statement of compliance with accrual basis IPSAS at the end of its first reporting period, i.e. December 31, 20X1. The financial statements prepared for the first reporting period, will therefore be referred to as the "first transitional IPSAS financial statements".

IG8. The financial statements presented during the period of transition until the exemptions that provided the relief have expired, and/or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSAS, will be referred to as the "transitional IPSAS financial statements".

Basis of Preparation When Preparing Transitional IPSAS Financial Statements

IG9. As stated in paragraph 27 of IPSAS 33, a first-time adopter that elects to adopt one or more of the exemptions included in IPSAS 33, may not be able to make an explicit and unreserved statement of compliance with accrual basis IPSAS as required by IPSAS 1. During the period of transition, this fact shall be highlighted to the users of financial statements in presenting the "basis of preparation" in the financial statements.

IG10. As an illustration, if a first-time adopter elected to adopt the transitional exemption that allows it three years in which to recognize and/or measure investment property, the following explanation may be provided in the "basis of preparation" paragraph in the financial statements during the period of transition:

Basis of preparation

The financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSAS). IPSAS 33 allows a first-time adopter a period of up to three years to recognize and/or measure certain assets and/or liabilities.

In its transition to accrual basis IPSAS, Public Sector Entity X took advantage of this transitional exemption for investment property. As a result, it is unable to make and explicit an unreserved statement of compliance with accrual basis IPSAS in preparing its transitional IPSAS financial statements for this reporting period. Public Sector Entity X intends to recognize and/or measure its investment property by 20X3.

First IPSAS *Financial Statements*

IG11. A first-time adopter's first IPSAS financial statements will be the first set of financial statements that it presents in which it makes an explicit and unreserved statement of compliance with accrual basis IPSAS.

IG12. A first-time adopter will not be able to prepare its first IPSAS financial statements until the exemptions in IPSAS 33 that provided relief which affected fair presentation and compliance with IPSAS, have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSAS (whichever is earlier).

IG13. Following from the example in IG5, the transitional exemptions that provided the relief for the recognition of certain items of property, plant and equipment expire after three years, i.e. December 31, 20X3. If it is assumed that the entity has not adopted any other transitional exemptions in IPSAS 33 that affect fair presentation and compliance with IPSAS, and that it recognizes and/or measures the items of property, plant and equipment during the transitional period, a first-time adopter will present its first IPSAS financial statements for the period ending December 31, 20X3.

IG14. If a first-time adopter has not adopted any of the exemptions in IPSAS 33 that affect fair presentation and its ability to claim compliance with accrual basis IPSAS, its first accrual financial statements will also be its first IPSAS financial statements.

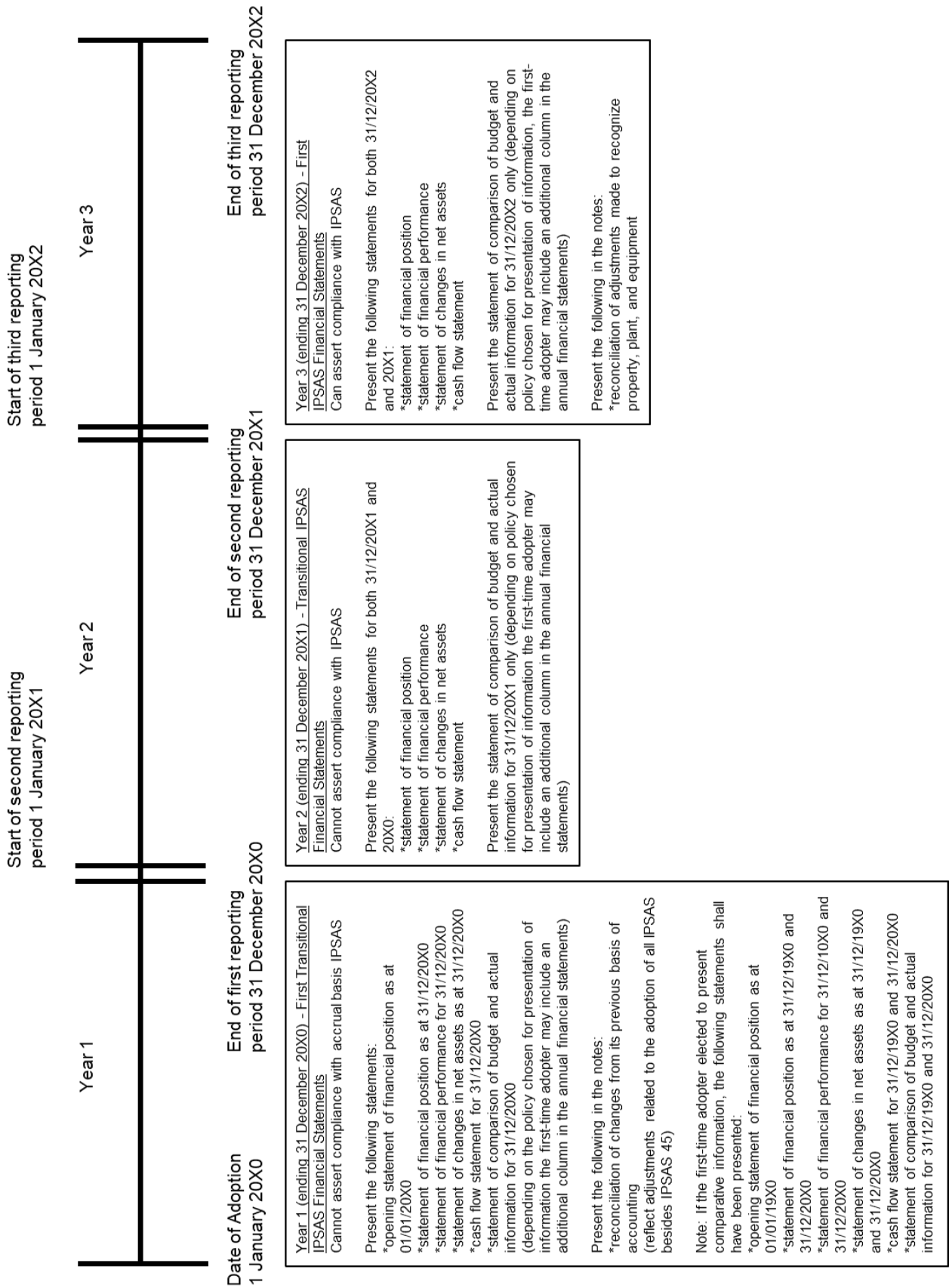
To illustrate:

Timeline – First Time Adoption IPSAS (assuming that entity elects to apply the three year transitional relief for the recognition and/or measurement of certain assets)

An entity adopts accrual basis IPSAS on 1 January 20X0 by applying IPSAS 33, *First Time Adoption of Accrual Basis IPSAS*

The first-time adopter elects to apply the three year relief for the recognition of property, plant, and equipment. Assume that it does not adopt of any other relief periods. It also elects not to present comparative information.

The first-time adopter recognizes all property, plant, and equipment by 31 December 20X2.



Estimates

IG15. Paragraph 23 of IPSAS 33 requires that a first-time adopter's estimates in accordance with IPSAS at the date of adoption of IPSAS shall be consistent with estimates made at the end of its comparative period in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. An entity may receive information after the date of adoption of IPSAS about estimates that it had made under the previous basis of accounting. In accordance with paragraph 24, a first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period*.

IG16. For example, assume that a first-time adopter's date of adoption of IPSAS is January 1, 20X4 and new information on July 15, 20X4 requires the revision of an estimate made in accordance with the previous basis of accounting at December 31, 20X3. The first-time adopter shall not reflect that new information in its opening statement of financial position (unless the estimates require adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the first-time adopter shall reflect that new information in surplus or deficit for the year ended December 31, 20X4.

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

IG17. IPSAS 33 provides a first-time adopter a period of up to three years' relief in which it is allowed to not recognize and/or measure certain assets and liabilities. Where a first-time adopter takes advantage of this exemption, it will have to consider and analyze title deeds, contracts and other similar arrangements in accounting for, and classifying these assets in accordance with the applicable IPSAS.

IG18. For example, assume that a first-time adopter controls a wide range of property, plant and equipment when it adopts accrual basis IPSAS on January 1, 20X1. If the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure the property, plant and equipment, it may recognize and/or measure the property, plant and equipment during the period of transition from January 1, 20X1 until December 31, 20X3. If the property, plant and equipment is recognized for example, on April 1, 20X2, the first-time adopter shall adjust the opening accumulated surplus or deficit on January 1, 20X2. As required by paragraph 142 of IPSAS 33, the first-time adopter shall, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at December 31, 20X1 (i.e. the opening balance as at January 1, 20X2) for the property, plant and equipment that was recognized on April 1, 20X2.

IG19. Where a first-time adopter has taken advantage of the three year relief period, it shall not derecognise any of the assets and/or liabilities that were recognized under its previous basis of accounting unless it is to comply with an IPSAS requirement. Any adjustments to the assets and/or liabilities recognized under its previous basis of accounting shall be adjusted during the period of transition against the opening accumulated surplus of deficit in the period in which the adjustment is made.

Accounting for Leases

IG20. Where a first-time adopter that is a lessee takes advantage of the exemption that provides a three year transitional relief period to not recognize its right-of-use assets, it will also not be able to comply with the recognition requirements relating to the lease liabilities, until the transitional exemptions related to the right-of-use assets have expired.

IG21. For example, assume that a first-time adopter that is a lessee has a right-of-use asset as a result of a lease contract on the date of adoption of accrual basis IPSAS on January 1, 20X1. The first-time adopter takes

advantage of the exemption that provides a three year transitional relief period to not recognize the right-of-use asset. The right-of-use asset is recognized on December 31, 20X3 when the exemption expires. IPSAS 33 requires the first-time adopter to only recognize the corresponding lease liability for the right-of-use asset on December 31, 20X3, i.e. on the date that the right-of-use asset is recognized.

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant and Equipment

IG22. IPSAS 45, *Property, Plant, and Equipment* recognizes that in some cases, the construction or commissioning of an item of property, plant, and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant and equipment and restore the site on which the asset is located. An entity is required to apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* in recognizing and measuring the resulting provision to be included in the initial cost of the item of property, plant, and equipment.

IG23. IPSAS 33 provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, until such time as the exemption for IPSAS 45 expires and/or the relevant asset is recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with IPSAS 45 (whichever is earlier).

IG24. For example, an entity adopts accrual basis IPSAS on January 1, 20X1 and takes advantage of the exemption in IPSAS 33 that provides a three year transitional relief period to not recognize a government owned nuclear power station. The first-time adopter determines a deemed cost for the asset on June 30, 20X3 and recognizes the asset on that date at CU1,000,000. The first-time adopter determines that it has a decommissioning obligation under IPSAS 19 of CU500,000 at the date of adoption of IPSAS. The obligation amounts to CU550,000 on June 30, 20X3 when the asset is recognized.

IG25. IPSAS 33 requires the first-time adopter to only recognize and/or measure its obligation relating to the dismantling and restoring of the site on June 30, 20X3, i.e. the date on which the asset is recognized. The liability will be measured at CU550,000 which reflects the first-time adopter's obligation on the date that the asset is recognized. The first-time adopter shall, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at December 31, 20X2 (i.e. the opening balance as at January 1, 20X3) for the recognition of the obligation and the related asset that was recognized on June 30, 20X2.

Borrowing Costs Incurred on Qualifying Assets

IG26. Paragraph 90 of IPSAS 33 requires that, where a first-time adopter elects to account for borrowing costs in accordance with the allowed alternative treatment, it is required to apply the requirements in IPSAS 5, *Borrowing Costs* retrospectively, for any borrowing costs incurred on qualifying assets before the date for adoption of IPSAS.

IG27. Paragraph 44 of IPSAS 33 provides an exemption to this requirement by allowing a first-time adopter to commence capitalization of borrowings costs incurred on qualifying assets after the recognition of an asset where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period for the recognition of assets.

IG28. For example, a first-time adopter adopts the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. The date of adoption of IPSAS is January 1, 20X1. The first-time adopter determines that the borrowing cost incurred prior to the adoption of IPSAS on January 1, 20X1 amounts to CU500,000 and that borrowing costs incurred at the end following two reporting periods amounted to CU20,000 and CU30,000. In addition, the first-time adopter adopts the exemption that provides three year

transitional relief from the recognition of property, plant and equipment and as a result, recognizes the item of property, plant and equipment at the end of the second reporting period at CU1,000,000.

At the end of 20X2, the item of property, plant and equipment recognized on the statement of financial position will be CU1,030,000 (CU1,000,000 + CU30,000). Borrowing costs incurred prior to the recognition of the item of property, plant and equipment, i.e. CU500,000 and CU20,000 shall not be included as part of the cost of the qualifying asset.

Presenting Comparative Information

IG29. Paragraph 78 of IPSAS 33 encourages, but does not require an entity to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements in accordance with this IPSAS. The decision to present comparative information affects not only the extent of the information presented, but also the date of adoption of IPSAS.

Date of Adoption of IPSAS

IG30. To illustrate: The end of a first-time adopter's first accrual basis reporting period is December 31, 20X5. The first-time adopter decides to present comparative information in those financial statements for one year only (see paragraph 78 of IPSAS 33). Therefore, its date of adoption of IPSAS is the beginning of the comparative period i.e. January 1, 20X4 (or equivalently December 31, 20X3).

Information Presented when a First-Time Adopter Elects to Prepare Comparative Information

IG31. Where the first-time adopter elects to prepare comparative information, it is required to apply the accrual basis IPSAS effective for periods ending on December 31, 20X5 in:

(a) Preparing and presenting its opening accrual basis statement of financial position at January 1, 20X4; and

(b) Preparing and presenting its:

(i) Statement of financial position for December 31, 20X5 (including comparative amounts for 20X4);

(ii) Statement of financial performance (including comparative amounts for 20X4);

(iii) Statement of changes in net assets/equity for December 31, 20X5 (including comparative amounts for 20X4);

(iv) Statement of cash flows for the year to December 31, 20X5 (including comparative amounts for 20X4);

(v) Disclosures (including comparative information for 20X4);

(vi) A comparison of budget and actual amounts for the year to December 31, 20X5; and

(vii) Reconciliations in accordance with paragraph 142.

First-Time Adopter Elects to Not Prepare Comparative Information

IG32. Where a first-time adopter elects to not prepare comparative information, it is required to apply the accrual basis IPSAS effective for periods ending on December 31, 20X5:

(a) Preparing and presenting its opening accrual basis statement of financial position at 1 January 20X5; and

(b) Preparing and presenting its:

(i) Statement of financial position for December 31, 20X5;

(ii) Statement of financial performance for December 31, 20X5;

(iii) Statement of changes in net assets/equity for December 31, 20X5;

(iv) Statement of cash flows for the year to December 31, 20X5;

(v) Disclosures;

(vi) A comparison of budget and actual amounts for the year to December 31, 20X5; and

(vii) Reconciliations in accordance with paragraph 142.

Adoption of Three-Year Transitional Relief Period

IG33. Where the first-time adopter takes advantage of the exemptions that provide relief from the recognition and/or measurement of assets and/or liabilities, IPSAS 33 requires it to only adjust comparative information for reporting periods following the date of adoption of IPSAS to the extent that reliable and relevant information is available about the items that have been recognized and/or measured.

IG34. To illustrate: The end of a first-time adopter's first accrual basis reporting period is December 31, 20X2. The first-time adopter on the date of adoption of IPSAS on January 1, 20X1, adopts the transitional exemption providing a three year relief period for the recognition of investment property. At the end of 20X3 the first-time adopter has recognized the investment property, which is included in the statement of financial position as at December 31, 20X3. Only if reliable and relevant information is available about the value of the investment property recognized during 20X3, will the first-time adopter adjust the comparative information presented (i.e., for the period ending December 31, 20X2).

Presenting Reconciliations

IG35. Paragraph 142 of IPSAS 33 requires a first-time adopter to present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSAS for its first transitional IPSAS financial statements or its first IPSAS financial statements. A reconciliation is also presented of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS.

IG36. For example, a first-time adopter, which previously applied a modified-accrual basis of accounting, adopts accrual basis IPSAS on January 1, 20X4 and elects to present comparative information as permitted in IPSAS 33. The first-time adopter shall, in accordance with paragraphs 142 and 143 of IPSAS 33, present a reconciliation in the notes to its transitional IPSAS financial statements that provides sufficient detail to enable users to understand the material adjustments to the opening statement of financial position as at January 1, 20X4, and the restated comparative statement of financial performance, where applicable.

IG37. Paragraph 146 further requires a first-time adopter that takes advantage of the exemptions that provide a three year transitional relief period to not recognize and/or measure items, to present a reconciliation of items that have been recognized and/or measured during the reporting period which were not recognized and/or measured in the previous financial statements.

IG38. Following from the example in IG29, a first-time adopter adopts the exemption in IPSAS 33 that allows it to not recognize investment property for a period of three years. The first-time adopter applies this exemption and only recognizes the investment property at the end of year three, i.e. December 31, 20X4. As an adjustment is made to the opening balance of accumulated surplus or deficit as on January 1, 20X4 in recognizing the investment property, paragraph 146 requires the first-time adopter to present a reconciliation in its notes to the financial statements for the year ending December 31, 20X4 to allow users to understand the adjustment that was made following the recognition of the investment property.

Deemed Cost

IG39. IPSAS 33 allows a first-time adopter to determine a deemed cost as a substitute for acquisition cost or depreciated cost at the date of adoption of IPSAS, where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets and/or liabilities. A deemed cost may however only be determined if no cost information is available about the historical cost of the asset and/or liability. When a first-time adopter initially measures these assets and/or liabilities on the date of adoption of IPSAS, or when the transitional exemptions that provided the first-time adopter with a three year relief period to not recognize and/or measure certain assets and/or liabilities have expired, it recognizes the effect directly in accumulated surplus or deficit in the opening statement of financial position in the period in which the deemed cost is determined.

To illustrate:

Public Sector Entity X adopted accrual basis IPSAS on January 1, 20X4 and applied deemed cost to measure investment property. In applying deemed cost, investment property was valued at CU 1,800,000 on the date of adoption. Public Sector Entity X elected to not present comparative information.

Statement of Changes in Net Assets/Equity for the Year ended December 31, 20X4

	Attributable to owners of the controlling entity		Total net assets/equity
	Accumulated surplus/deficit CU	Other Reserves CU	CU
Opening balance as at January 1, 20X4	210,000	10,000	220,000
Measurement of investment property at deemed cost in accordance with IPSAS 33 (see note 34)	1,500,000		1,500,000
Restated opening balance as at January 1, 20X4	1,710,000	10,000	1,720,000
Surplus for the period	5,000		5,000
Balance as at December 31, 20X4	1,715,000	10,000	1,725,000

Notes to the financial statements of Public Sector Entity X as at December 31, 20X4:

Note 34 – Investment Property

	December 31, 20X4CU
Opening balance of investment property recognized under previous basis of accounting	300,000
Investment property measured at deemed cost as provided in IPSAS 33 on January 1, 20X4	1,500,000
Restated opening balance of investment property at January 1, 20X4	1,800,000
Additions	…….

Transitional exemptions adopted in IPSAS 33 on adoption of accrual basis IPSAS

Public Sector Entity X adopted accrual basis IPSAS on January 1, 20X4 and applied deemed cost in measuring investment property as reliable cost information about some investment properties was not available. As a result, Public Sector Entity X restated its opening balance of investment property with an additional value of CU1,500,000 on January 1, 20X4.

Note 54 – Reconciliation of net assets/equity and surplus or deficit on January 1, 20X4

Reconciliation of net assets/equity as on January 1, 20X4

	Net assets/equity as on January 1, 20X4
	CU
Opening balance of net assets/equity as on January 1, 20X4 reported under previous basis of accounting	*220,000*
Recognition of investment property at deemed cost (see note 34)	*1,500,000*
Restated opening balance of net assets/equity as on January 1, 20X4	***1,720,000***

Reconciliation of surplus or deficit on January 1, 20X4

	Surplus or deficit on January 1, 20X4
	CU
Surplus or deficit as at 31, December 20X3 as reported under previous basis of accounting	*210,000*
Recognition of investment property at deemed cost (see note 34)	*1,500,000*
Restated surplus or deficit as on January 1, 20X4	***1,710,000***

Determining a Deemed Cost During the Period of Transition

IG40. If a first-time adopter takes advantage of the exemption in IPSAS 33 that provides a three year transitional relief period to not recognize and/or measure an asset, the IPSAS requires that it may determine a deemed cost for that asset during any point of time within the three year transitional relief period.

IG41. Subsequent depreciation and amortization, if applicable, is based on that deemed cost and starts from the date of adoption of IPSAS, or when the transitional exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

IG42. For example, a first-time adopter adopts IPSAS on January 1, 20X1 and adopts the exemption that provides a three-year transitional relief period for the recognition of an investment property. Because the first-time adopter does not have reliable cost information about the historical cost of the investment property on the date of adoption of IPSAS, it decides to determine a deemed cost for the investment property. The deemed cost for the investment property is determined during the second reporting period (i.e., 20X2) in which the first-time adopter applies the exemption. IPSAS 33 allows the first-time adopter to use the deemed cost determined during 20X2 in recognizing the investment property by adjusting the opening accumulated surplus and deficit on January 1, 20X2. The deemed cost as determined on January 1, 20X2 will be used in determining subsequent depreciation and in assessing impairment where the first-time adopter elects to apply the historical cost model as its subsequent measurement basis in applying IPSAS 16.

IPSAS 5, *Borrowing Costs*

IG43. An entity adopts the accrual basis IPSAS on January 1, 20X3 and adopts the allowed alternative treatment in accounting for borrowing costs. Borrowing costs directly attributable to the acquisition of the asset amounts to CU525,000, of which CU500,000 was incurred prior to the adoption of accrual basis IPSAS, while CU25,000 was incurred in the first reporting period ending December 31, 20X3. Paragraph 90 of IPSAS 33 requires the first-time adopter to retrospectively recognize any borrowing costs incurred prior to the adoption of accrual basis IPSAS when it adopts the allowed alternative method. Therefore, CU500,000 shall be capitalized to the cost of the asset recognized in the opening statement of financial position as at January 1, 20X3.

IG44. If the entity has elected to apply the benchmark treatment, paragraph 88 of IPSAS 33 encourages, but does not require, the first-time adopter to apply the accounting policy retrospectively. If the first-time adopter elects to apply its accounting policy prospectively, it will only expense CU25,000 in the statement of financial performance for the period ending December 31, 20X3.

IPSAS 47, *Revenue*

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with IPSAS 47 (for example, the proceeds of a transaction that does not qualify for recognition as revenue), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It shall derecognize the liability and recognize the revenue in its statement of financial performance when the recognition criteria in IPSAS 47 are met.

IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

IG46. A first-time adopter complies with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* in determining its functional currency and presentation currency. When the first-time adopter prepares its opening statement of financial position, it applies IPSAS 10, *Hyperinflationary Economies*, to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

IG47. If the first-time adopter elects to use the exemptions in paragraphs 64 to 76 of IPSAS 33, it applies IPSAS 10 to periods after the date for which the revalued amount or fair value was determined.

IPSAS 14, *Events After the Reporting Date*

IG48. Except as described in paragraph IG49, a first-time adopter applies IPSAS 14, *Events After the Reporting Date* in determining whether:

(a) Its opening statement of financial position reflects an event that occurred after the date of transition; and

(b) Comparative amounts in its transitional IPSAS financial statements or its first IPSAS financial statements, where applicable, reflect an event that occurred after the end of that comparative period.

IG49. Paragraphs 23–26 of IPSAS 33 require some modifications to the principles in IPSAS 14 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of adoption of IPSAS (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 23–26 of IPSAS 33 do not require modifications to the principles in IPSAS 14.

(a) Case 1—If a first-time adopter's previous basis of accounting required estimates of similar items for the date of adoption of IPSAS, using an accounting policy that is consistent with IPSAS. In this case, the estimates in accordance with IPSAS need to be consistent with estimates made for that date in accordance with previous basis of accounting, unless there is objective evidence that those estimates

were in error (see IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*). The first-time adopter reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of adoption of IPSAS.

(b) Case 2—Previous basis of accounting required estimates of similar items for the date of adoption of IPSAS, but the first-time adopter made those estimates using accounting policies that are not consistent with its accounting policies in accordance with IPSAS. In this case, the estimates in accordance with IPSAS need to be consistent with the estimates required in accordance with the previous basis of accounting for that date (unless there is objective evidence that those estimates were in error), after adjusting for the difference in accounting policies. The opening statement of financial position reflects those adjustments for the difference in accounting policies. As in case 1, the first-time adopter reports later revisions to those estimates as events of the period in which it makes the revisions.

For example, the previous basis of accounting may have required a first-time adopter to recognize and measure provisions on a basis consistent with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, except that the previous basis of accounting's measurement was on an undiscounted basis. In this example, the first-time adopter uses the estimates in accordance with its previous basis of accounting as inputs in making the discounted measurement required by IPSAS 19.

(c) Case 3—Previous basis of accounting did not require estimates of similar items for the date of adoption of IPSAS. Estimates in accordance with IPSAS for that date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of adoption of IPSAS reflect market conditions at that date. This is consistent with the distinction in IPSAS 14 between adjusting events after the reporting period and non-adjusting events after the reporting period.

IG50. To illustrate: Entity A's first transitional IPSAS financial statements are for the period ending December 31, 20X5 with the first-time adopter electing to present comparative information. In terms of its previous basis of accounting the following transactions and events are noted in entity A's financial statements for December 31, 20X3 and 20X4:

(a) Estimates of accrued expenses and provisions were made at those dates;

(b) The entity accounted on a cash basis for a defined benefit pension plan; and

(c) No provision was recognized for a court case arising from events that occurred in September 20X4. When the court case was concluded on June 30, 20X5, entity A was required to pay CU1000 and paid this on July 10, 20X5.

In preparing its transitional IPSAS financial statements, entity A concludes that its estimates in accordance with its previous basis of accounting of accrued expenses and provisions at December 31, 20X3 and 20X4 were made on a basis consistent with its accounting policies in accordance with IPSAS. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those overestimates and underestimates involves the routine adjustment of estimates in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Application of Requirements

In preparing its opening statement of financial position at January 1, 20X4 and in its comparative statement of financial position at December 31, 20X4, entity A:

(a) Does not adjust the previous estimates for accrued expenses and provisions; and

(b) Makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with IPSAS 39, *Employee Benefits*. Entity A's actuarial assumptions at January 1, 20X4 and December 31, 20X4 do not reflect conditions that arose after those dates. For example, entity A's:

(i) Discount rates at January 1, 20X4 and December 31, 20X4 for the pension plan and for provisions reflect market conditions at those dates; and

(ii) Actuarial assumptions at January 1, 20X4 and December 31, 20X4 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 20X5.

The treatment of the court case at December 31, 20X4 depends on the reason why entity A did not recognize a provision in accordance with its previous basis of accounting at that date.

Assumption 1 – The previous basis of accounting was consistent with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with IPSAS are consistent with its assumptions in accordance with its previous basis of accounting. Therefore, entity A does not recognize a provision at December 31, 20X4.

Assumption 2 – Entity A's previous basis of accounting was not consistent with IPSAS 19. Therefore, entity A develops estimates in accordance with IPSAS 19. Under IPSAS 19, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with IPSAS 14, *Events after the Reporting Period*, the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 20X4 (when the events occurred that gave rise to the court case). Therefore, entity A recognizes a provision at December 31, 20X4. Entity A measures that provision by discounting the CU1 000 paid on July 10, 20X5 to its present value, using a discount rate that complies with IPSAS 19 and reflects market conditions at December 31, 20X4.

IG51. Paragraphs 23–26 of the IPSAS 33 do not override requirements in other IPSAS that base classifications or measurements on circumstances existing at a particular date. Examples include:

(a) The identification of a lease (see IPSAS 43, *Leases*); and

(b) The distinction between financial liabilities and equity instruments (see IPSAS 28, *Financial Instruments: Presentation*).

IPSAS 43, *Leases*

IG52. In accordance with paragraph 95 of IPSAS 33 and paragraph 70 of IPSAS 43, a lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease, on the date of adoption of accrual basis IPSAS. In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification for the lessor in accordance with IPSAS 43 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new contract over its term from the date of adoption of accrual basis IPSAS.

IPSAS 45, Property, Plant, and Equipment

IG53. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSAS, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraphs 22 and 26 of IPSAS 33 and paragraph 57 of IPSAS 45). However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSAS (for example, if they do not reflect a reasonable estimate of the asset's useful life). If

those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSAS.

IG54. A first-time adopter may elect to use one of the following amounts as the deemed cost of property, plant, and equipment:

(a) Current operational value or fair value at the date of adoption of IPSAS (paragraph 67 of IPSAS 33), in which case the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33; or

(b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS 33.

IG55. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter determined the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with IPSAS 45 (whichever is earlier).

IG56. If a first-time adopter chooses as its accounting policy the current value model in IPSAS 45 for some or all classes of property, plant, and equipment, it presents the cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSAS is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the current operational value or fair value at the date of adoption of IPSAS or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with IPSAS 45 (whichever is earlier), the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33.

IG57. If revaluations in accordance with the first-time adopter's previous basis of accounting did not satisfy the criteria in paragraphs 67 or 69 of IPSAS 33, the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

(a) Historical cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the historical cost model in IPSAS 45;

(b) Deemed cost, being the current operational value or fair value or an alternative when market-based evidence of current operational value or fair value is not available, at the date of adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or when the transitional exemptions expire (whichever is earlier); or

(c) A revalued amount, if the entity adopts the current value model in IPSAS 45 as its accounting policy in accordance with IPSAS for all items of property, plant, and equipment in the same class.

IG58. IPSAS 45 requires each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, IPSAS 45 does not prescribe the unit of measurement for recognition of an asset, i.e. what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances (see paragraphs 8 and 41).

IPSAS 39, *Employee* Benefits

IG59. At the date of adoption of IPSAS, a first-time adopter applies IPSAS 39 in measuring defined benefits plans and other long-term employee benefits, and recognizes all cumulative actuarial gains or losses from the

inception of the plan until the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier).

IG60. A first-time adopter's actuarial assumptions at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), are consistent with actuarial assumptions made at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33) in accordance with its previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 23 of the IPSAS 33). Any later revisions to those assumptions are an actuarial gain or loss of the period in which the first-time adopter makes the revisions.

IG61. A first-time adopter may need to make actuarial assumptions at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), that were not necessary in accordance with its basis of accounting. Such actuarial assumptions do not reflect conditions that arose after the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier). In particular, discount rates and the fair value of plan assets at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the liabilities are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), reflect market conditions at that date. Similarly, the first-time adopter's actuarial assumptions at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier), about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39 (whichever is earlier) (paragraph 23 of IPSAS 33).

IG62. In many cases, a first-time adopter's transitional IPSAS financial statements or its first IPSAS financial statements will reflect measurements of employee benefit obligations at three dates (where a first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33): the end of the first reporting period, the date of the comparative statement of financial position (where the first-time adopter elects to present comparative information) and the date of adoption of IPSAS, or where the first-time adopter takes advantages of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 39

(whichever is earlier). IPSAS 39 encourages the first-time adopter to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimize costs, a first-time adopter may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (paragraph 61 of IPSAS 39).

IPSAS 21, *Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets*

IG63. Paragraph 98 and 108 of IPSAS 33 requires a first-time adopter to apply the requirements in IPSAS 21 and IPSAS 26 prospectively from the date of adoption of accrual basis IPSAS, or where a first-time adopter takes advantage of the exemptions that provide a three year transitional relief period to not recognize and/or measure an asset, the date when the exemptions that provided the relief expire and/or the asset is recognized and/or measured. For example, if an entity adopts accrual basis IPSAS on January 1, 20X1 and takes advantage of the three year transitional relief period to not recognize and/or measure an item or property, plant and equipment, if would not be required to assess the item of property, plant and equipment for impairment until (a) December 31, 20X3 (i.e. the date on which the transitional exemption expire) or (b) the date following the recognition of the item of property, plant and equipment if it was recognized and/or measured during the period of transition (whichever is earlier).

IG64. The estimates used to determine whether a first-time adopter recognizes an impairment loss (and to measure any such impairment loss) at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) are consistent with estimates made for at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33) the first-time adopter's previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 23 and 24 of IPSAS 33). The first-time adopter reports any later revisions to those estimates as an event of the period in which it makes the revisions.

IG65. In assessing whether it needs to recognize an impairment loss (and in measuring any such impairment loss) at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), the first-time adopter may need to make estimates for that date that were not necessary in accordance with its previous basis of accounting. Such estimates and assumptions do not reflect conditions that arose after the date of transition, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) (paragraph 25 of IPSAS 33).

IPSAS 28, *Financial Instruments: Presentation*

IG66. In its opening statement of financial position, a first-time adopter applies the criteria in IPSAS 28 to classify financial instruments issued (or components of compound instruments issued) as either financial liabilities or net asset/equity instruments in accordance with the substance of the contractual arrangement when the instrument first satisfied the recognition criteria in IPSAS 28 (paragraphs 13 and 35), without considering events after that date (other than changes to the terms of the instruments).

IPSAS 41, *Financial Instruments*

Recognition

IG67. A first-time adopter recognizes all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with IPSAS 41 and have not yet qualified for derecognition in accordance with IPSAS 41, except non-derivative financial assets and non-derivative financial liabilities derecognized in accordance with its previous basis of accounting before the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), to which the first-time adopter does not choose to apply paragraph 116 of IPSAS 33 (see paragraphs 115 and 116 of IPSAS 33).

IG68. For example, a first-time adopter that does not apply paragraph 116 of IPSAS 33 does not recognize assets transferred in a securitization, transfer or other derecognition transaction that occurred before the date of adoption of IPSAS if those transactions qualified for derecognition in accordance with its previous basis of accounting. However, if the first-time adopter uses the same securitization arrangement or other derecognition arrangement for further transfers after the date of transition to IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), those further transfers qualify for derecognition only if they meet the derecognition criteria of IPSAS 41.

Embedded Derivatives

IG69. When IPSAS 41 requires a first-time adopter to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IPSAS 41 reflect circumstances at that date (IPSAS 41 paragraph 49). If the first-time adopter cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it measures the entire combined contract as at fair value through surplus or deficit (IPSAS 41 paragraph 52).

Measurement

IG70. In preparing its opening statement of financial position, a first-time adopter applies the criteria in IPSAS 41 to identify those financial assets and financial liabilities that are measured at fair value and those that are measured at amortized cost.

Adjusting the Carrying Amount of Financial Instruments on the Date of Adoption of Accrual Basis IPSAS or During the Period of Transition

IG71. A first-time adopter shall treat an adjustment to the carrying amount of a financial asset or financial liability as an adjustment to be recognized in the opening balance of accumulated surplus or deficit at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), only to the extent that it results from adopting IPSAS 41. Because all derivatives, other than those that are financial guarantee contracts or are designated and effective hedging instruments, are classified as held for trading, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognized as an adjustment of the balance of accumulated surplus or deficit at the beginning of the financial year in which IPSAS 41 is initially applied, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

Hedge Accounting

IG72. Paragraphs 117 to 119 of IPSAS 33 deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.

IG73. A first-time adopter may, in accordance with its previous basis of accounting, have deferred or not recognized gains and losses on a fair value hedge of a hedged item that is not measured at fair value. For such a fair value hedge, a first-time adopter adjusts the carrying amount of the hedged item at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). The adjustment is the lower of:

(a) That portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk and was not recognized in accordance with its previous basis of accounting; and

(b) That portion of the cumulative change in the fair value of the hedging instrument that reflects the designated hedged risk and, in accordance with its previous basis of accounting, was either (i) not recognized or (ii) deferred in the statement of financial position as an asset or liability.

IG74. A first-time adopter may, in accordance with its previous basis of accounting, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognized in net assets/equity. Any net cumulative gain or loss that has been reclassified to net assets/equity on initial application of IPSAS 41 or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) remains in net assets/equity until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects surplus or deficit or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss is reclassified from net assets/equity to surplus or deficit. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge in accordance with IPSAS 41, hedge accounting is no longer appropriate starting from the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

IPSAS 31, *Intangible Assets*

IG75. A first-time adopter's opening statement of financial position excludes all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with IPSAS 31 at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible

assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) and includes all intangible assets that meet the recognition criteria in IPSAS 31 at that date.

IG76. The criteria in IPSAS 31 require an entity to recognize an intangible asset if, and only if:

(a) It is probable that the future economic benefits that are attributable to the asset will flow to the entity; and

(b) The cost of the asset can be measured reliably.

IPSAS 31 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

IG77. In accordance with paragraphs 63 and 66 of IPSAS 31, an entity capitalises the costs of internally generated intangible assets prospectively from the date when the recognition criteria are met. IPSAS 33 allows an entity to recognize previously expensed intangible assets to the extent that the item meets the definition of an intangible asset, and the recognition criteria in IPSAS 31. Thus, if an internally generated intangible asset qualifies for recognition at the date of adoption of IPSAS, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible assets are recognized and/or measured in accordance with the IPSAS 31 (whichever is earlier) the first-time adopter recognizes and/or measures the asset in its opening statement of financial position even if it had recognized the related expenditure as an expense in accordance with its pervious basis of accounting.

IG78. If the asset does not qualify for recognition in accordance with IPSAS 31 until a later date, its cost is the sum of the expenditure incurred from that later date.

IG79. The criteria in paragraph IG76 also apply to intangible assets acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits or service potential. Furthermore, as explained in paragraph 33 of IPSAS 31, the cost of a separately acquired intangible asset can usually be measured reliably.

IG80. A first-time adopter may elect to use one of the following amounts as the deemed cost of intangible assets (except for internally generated intangible assets):

(a) Fair value at the date of adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or the date on which the exemptions expire (whichever is earlier) (paragraph 67 of IPSAS 33), in which case the entity gives the disclosures required by paragraph 148 of IPSAS 33; or

(b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS 33.

IG81. If a first-time adopter’s amortization methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSAS, it accounts for any change in estimated useful life or amortization pattern prospectively from when it makes that change in estimate (paragraphs 23 and 24 of IPSAS 33 and paragraph 103 of IPSAS 31). However, in some cases, the first-time adopter’s amortization methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSAS (for example, if they do not reflect a reasonable estimate of the asset’s useful life). If those differences have a material effect on the financial statements, the first-time adopter adjusts accumulated amortization on in its opening statement of financial position retrospectively so that it complies with IPSAS.

IPSAS 35, *Consolidated Financial Statements*

IG82. If a first-time adopter did not consolidate a controlled entity in accordance with its previous basis of accounting, then, in its consolidated financial statements, the first-time adopter measures the controlled entity's assets and liabilities at the same carrying amounts as in the accrual basis financial statements of the controlled entity following its adoption of IPSAS, after adjusting for consolidation procedures and for the effects of the public sector combination in which it acquired the controlled entity (paragraph 130 of IPSAS 33). If the controlled entity has not adopted accrual basis IPSAS in its financial statements, the carrying amounts described in the previous sentence are those that IPSAS would require in those financial statements.

Controlling Entity Adopts Accrual Basis IPSAS Before the Controlled Entity

Background

IG83. Controlling entity A presents its (consolidated) first IPSAS financial statements in 20X5. Its controlled entity B, wholly owned by controlling entity A since formation, prepares information in accordance with accrual basis IPSAS for internal consolidation purposes from that date, but controlled entity B does not present its first IPSAS financial statements until 20X7.

Application of Requirements

IG84. If controlled entity B applies paragraph 129(a) of IPSAS 33, the carrying amounts of its assets and liabilities are the same in both its opening IPSAS statement of financial position at January 1, 20X6 and controlling entity's A consolidated statement of financial position (except for adjustments for consolidation procedures) and are based on controlled entity B's date of adoption of IPSAS.

IG85. Alternatively, controlled entity B, in accordance with paragraph 129(b) of IPSAS 33, measure all its assets or liabilities based on its own date of adoption of IPSAS (January 20X6). However, the fact that controlled entity B becomes a first-time adopter in 20X7 does not change the carrying amounts of its assets and liabilities in controlling entity A's consolidated financial statements.

Controlled Entity Adopts Accrual Basis IPSAS Before the Controlling Entity

Background

IG86. Controlling entity C presents its (consolidated) transitional IPSAS financial statements IPSAS in 20X7. Its controlled entity D, wholly owned by controlling entity C since formation, presented its transitional IPSAS financial statements in 20X5. Until 20X7, controlled entity D prepared information for internal consolidation purposes in accordance with controlling entity's C previous basis of accounting.

Application of Requirements

IG87. The carrying amounts of controlled entity D's assets and liabilities at January 1, 20X6 are the same in both controlling entity's C (consolidated) opening accrual basis statement of financial position and controlled entity D's financial statements (except for adjustments for consolidation procedures) and are based on controlled entity D's date of adoption of IPSAS. The fact that controlling entity C becomes a first-time adopter in 20X7 does not change those carrying amounts (paragraph 129 of IPSAS 33).

IG88. Paragraphs 129 and 130 of IPSAS 33 do not override the following requirements:

(a) The rest of IPSAS 33 in measuring all assets and liabilities for which paragraphs 129 and 130 of IPSAS 33 are not relevant.

(b) To give all disclosures required by this IPSAS as of the first-time adopter's own date of transition to IPSAS.

IG89. Paragraph 129 of IPSAS 33 applies if a controlled entity becomes a first-time adopter later than its controlling entity, for example if the controlling entity previously prepared a reporting package in accordance with accrual

basis IPSAS for consolidation purposes but did not present a full set of financial statements in accordance with IPSAS. This may be relevant not only when a controlling entity reporting package complies fully with the recognition and measurement requirements of IPSAS, but also when it is adjusted centrally for matters such as review of events after the reporting date and central allocation of pension costs. However, paragraph 129 of IPSAS 33 does not permit a controlled entity to ignore misstatements that are immaterial to the consolidated financial statements of its controlling entity but material to its own financial statements.

IPSAS 48, *Transfer Expenses*

IG89A. If a first-time adopter applies IPSAS 48 on a retrospective basis and has transferred amounts that do not yet qualify for recognition as an expense (for example, the transfer of resources where the related transfer right has not yet been extinguished), the first-time adopter recognizes the amounts transferred as an asset in its opening statement of financial position and measures that asset at the amount transferred. It shall derecognize the asset and recognize the expense in its statement of financial performance when the recognition criteria in IPSAS 48 are met.

Presentation and Disclosure

IG90. Paragraphs 135 to 140 in IPSAS 33 require a first-time adopter to disclose certain information when it has taken advantage of the transitional exemptions and provisions in its adoption of accrual basis IPSAS.

To illustrate:

Notes to the financial statements for the year ending December 31, 20X2

Note 48 – Adoption of transitional exemptions and provisions in IPSAS 33

Public Sector Entity X adopted accrual basis IPSAS on January 1, 20X1 and elected to adopt the transitional exemption in IPSAS 33 that allows it to apply a deemed cost and a period of up to three years in which to measure land and buildings and investment property.

Public Sector Entity X took advantage of these exemptions in determining a deemed cost, and to measure its land and buildings and investment property. As a result of adopting these transitional exemptions and provisions the entity is not able to make an explicit and unreserved statement about its compliance with accrual basis IPSAS, as the adoption of these transitional exemptions affect the fair presentation of Public Sector Entity X's financial statements and its ability to assert compliance with accrual basis IPSAS.

No other transitional exemptions that affect fair presentation and compliance with accrual basis IPSAS during the period of transition were adopted or applied to any other assets and/or liabilities.

During the period under review, Public Sector Entity X restated its opening balance of investment property with an additional value of CU 1 200 000 after determining the deemed cost on June 30, 20X2 for the investment property under its control.

As at year end, Public Sector Entity X has not yet determined a deemed cost for land and buildings and has not yet measured these assets in its financial statements. Land and buildings reflect a closing balance of CU 2 500 000 as at December 31, 20X2. This value was determined under Public Sector Entity X's previous basis of accounting.

Public Sector Entity X plans to apply a three year transitional exemption for measuring its land and buildings and in determining a deemed cost for these asset.

Public Sector Entity X has appointed an appraiser to value the land and has developed a model for the measurement of buildings. The progress in determining the valuations for land and buildings is in accordance with its implementation plan.

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 *First-time Adoption of Accrual Basis IPSAS*

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSAS.

IPSAS	**Transitional exemption provided**							
	NO	**YES**						
		Deemed cost	**Three-year transitional relief for recognition**	**Three-year transitional relief for measurement**	**Three-year transitional relief for recognition and/or measurement**	**Three-year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 1, *Presentation of Financial Statements*						√ To extent that Three-year relief period was adopted		• Presenting comparative info encouraged
IPSAS 2, *Cash Flow Statements*	√							
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	√							
IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*								• Exemption to comply with requirements for cumulative translation • Not required to apply Appendix A to items initially recognized before the date of adoption of IPSAS

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	Three-year transitional relief for recognition	Three-year transitional relief for measurement	Three-year transitional relief for recognition and/or measurement	Three-year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
IPSAS 5, *Borrowing Costs*			√ When allowed alternative is elected as accounting policy					• Encouraged to apply benchmark treatment retrospectively • Allowed alternative must be applied retrospectively
IPSAS 10, *Financial Reporting In Hyperinflationary -Economies*								• Provisions around severe hyperinflation
IPSAS 12, *Inventories*		√	√ Inventory not recognized under previous basis of accounting	√ Inventory recognized under previous basis of accounting				
IPSAS 14, *Events After the Reporting Date*	√							
IPSAS, 16 *Investment Property*		√	√ Investment property not recognized under previous basis of accounting	√ Investment property recognized under previous basis of accounting				
IPSAS 18, *Segment Reporting*	√ No segment report to the							

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	Three-year transitional relief for recognition	Three-year transitional relief for measurement	Three-year transitional relief for recognition and/or measurement	Three-year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
	extent that three-year relief period was adopted							
IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*			√ Only liabilities related to assets not recognized under previous basis of accounting to be included initial estimate of cost of dismantling/ removing item/ restoring site	√ Only liabilities related to assets recognized under previous basis of accounting to be included initial estimate of cost of dismantling/ removing item/ restoring site				
IPSAS 20, *Related Party Disclosures*						√		
IPSAS 21, *Impairment of Non-Cash-Generating Assets*								• Prospective application
IPSAS 22, *Disclosure of Information About the General Government Sector*	√							
IPSAS 24, *Presentation of Budget*	√							

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	Three-year transitional relief for recognition	Three-year transitional relief for measurement	Three-year transitional relief for recognition and/or measurement	Three-year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
Information in Financial Statements								
IPSAS 26, *Impairment of Cash-Generating Assets*			√					• Prospective application
IPSAS 27, *Agriculture*			√ Biological and agricultural activities not recognized under previous basis of accounting	√ Biological and agricultural activities recognized under previous basis of accounting				
IPSAS 28, *Financial -Instruments: Presentation*								• Provisions not to separate liability and net asset/equity component under specific circumstances
IPSAS 30, *Financial Instruments: Disclosures*								• No comparative info about nature and extent of risks
IPSAS 31, *Intangible Assets*		√ Intangible assets other than internally generated I/A	√ Intangible assets not recognized under previous basis of accounting	√ Intangible assets recognized under previous basis of accounting				• Provision to recognise previously expensed internally generated intangible assets

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	Three-year transitional relief for recognition	Three-year transitional relief for measurement	Three-year transitional relief for recognition and/or measurement	Three-year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
IPSAS 32, *Service Concession Arrangements: Grantor*		√ Service concession asset	√ Service concession asset and related liability not recognized under previous basis of accounting	√ Service concession asset and related liability recognized under previous basis of accounting				• Provision on how to recognize related liability
IPSAS 35, *Consolidated Financial Statements*		√			√ To appropriately classify and identify interests in other entities		√	• Provisions when controlling and/or controlled entity adopts IPSAS at different time • Exemption to not prepare financial statements as consolidated financial statements • *(Assess if investment entity on date of adoption and measure at fair value at that date)*
IPSAS 36, *Investments in Associates and Joint Ventures*		√			√ To appropriately classify and identify interests in		√	• Provisions when controlling entity and associate adopts IPSAS

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	Three-year transitional relief for recognition	Three-year transitional relief for measurement	Three-year transitional relief for recognition and/or measurement	Three-year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
					other entities			at different time • Exemption to not include investment in associate in consolidated financial statements
		√			√ To appropriately classify and identify interests in other entities		√	• Provisions when controlling entity and associate and jointly controlled entities adopt IPSAS at different time • Exemption to not include interests in joint venture in consolidated financial statements
IPSAS 37, *Joint Arrangements*								• Provision on how to measure investment in joint venture previously accounted for using proportionate consolidation
IPSAS 39, *Employee Benefits*			√	√				• Provisions on how to

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	Three-year transitional relief for recognition	Three-year transitional relief for measurement	Three-year transitional relief for recognition and/or measurement	Three-year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
			defined benefit plans and other long-term employee benefits not recognized under previous basis of accounting	for defined benefit and other long-term employee benefits recognized under previous basis of accounting				determine initial liability • Provision to not separate cumulative actuarial gains and losses
IPSAS 41, *Financial Instruments*		√	√ For financial instruments not recognized under previous basis of accounting	√ For financial instruments recognized under previous basis of accounting				• Provisions around designation/ derecognition/ hedge accounting • Apply impairment principles prospectively
IPSAS 42, *Social Benefits*			√ liabilities for social benefits not recognized under previous basis of accounting	√ liabilities for social benefits recognized under previous basis of accounting				
IPSAS 43, *Leases*			√ Leased assets and/or liabilities not recognized under previous	√ Leased assets and/or liabilities recognized under previous basis of				

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	Three-year transitional relief for recognition	Three-year transitional relief for measurement	Three-year transitional relief for recognition and/or measurement	Three-year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
			basis of -accounting					
IPSAS 45, *Property, Plant, and Equipment*		√	√ Property, plant, and equipment not recognized under previous basis of accounting	√ Property, plant, and equipment recognized under previous basis of accounting				
IPSAS 47, *Revenue*			√ All revenue not recognized under previous basis of accounting	√ All revenue recognized under previous basis of accounting	√ To the extent that three-year relief period was adopted for assets and/or liabilities			
IPSAS 48, *Transfer Expenses*			√ All transfer expenses not recognized under previous basis of accounting	√ All transfer expenses recognized under previous basis of accounting	√ To extent that three-year relief period was adopted for assets and/or liabilities			

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS

This Appendix summarizes how the transitional exemptions and provisions that a first-time adopter is required to apply in terms of this IPSAS, and those that a first-time adopter may elect to apply on adoption of accrual basis IPSAS.

As the transitional exemptions and provisions that may be elected can also affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS as explained in paragraphs 27 to 32 of IPSAS 33, the Appendix makes a distinction between those transitional exemptions and provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSAS, and those that do not.

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
IPSAS 1 • Present comparative information		√	
IPSAS 4 • Cumulative transitional differences at the date of adoption • Not required to apply Appendix A to items initially recognized before the date of adoption of IPSAS		√ √	
IPSAS 5 • Allowed alternative treatment and has taken advantage of relief period • Adopt allowed alternative treatment on date of adoption – retrospective application • Adopt bench mark treatment on the date of adoption – retrospective application of costs incurred before and after date of adoption	√	√	√
IPSAS 10 • Determine if hyperinflationary economy is subject to severe hyperinflation at the date of adoption	√		

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
• Measure assets and liabilities if date of adoption is on or after normalisation date	√		
IPSAS 12 • Three-year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
IPSAS 16 • Three-year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
IPSAS 18 • No preparation of segment report within three years of adoption		√	
IPSAS 19 • No recognition and measurement of liability relating to initial estimate of costs of dismantling and removing item if relief for recognition and/or measurement of assets are adopted			√
IPSAS 20 • No disclosure of related party relationships, related party transactions and information about key management personnel			√
IPSAS 21 • Apply impairment provisions prospectively on date of adoption or when assets are recognised when relief period was applied	√		
IPSAS 26			

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
• Apply impairment provisions prospectively on date of adoption or when assets are recognised when relief period was applied	√		
IPSAS 27 • Three-year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
IPSAS 28 • Determine if financial instrument has liability and net asset/equity component on date of adoption • Do not separate compound financial instrument if no liability exists on date of adoption	√ √		
IPSAS 30 • No disclosure of information about nature and extent of risks		√	
IPSAS 31 • Three-year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets • Recognize all internally generated intangible assets	√		√
IPSAS 32 • Three-year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities • Measure liability either under financial liability model or grant of a right to the operator model on date of adoption or when asset is recognised if relief period is adopted	√		√

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
Applying deemed cost to assets and/or -liabilities		√	
Applying deemed cost to assets acquired in a non-exchange transaction		√	
Using deemed cost for investments in controlled entities, jointly controlled entities and associates		√	
Preparing reconciliations during transitional period	√		
IPSAS 35 • Relief to recognize and/or measure interests in controlled entity • Elect to not eliminate inter-entity balances, transactions, revenue and expenses • Controlled entity becomes first-time adopter later or earlier than its controlling entity	√		√ √
• Not present financial statements as consoli-dated financial statements if three-year relief for recognition and/or measurement and/or elimination option was adopted • *Assess if investment entity on date of adoption and determine fair value at that date*	√		√
IPSAS 36 • Relief to recognize and/or measure interest in associate • Elect to not eliminate share in associate's surplus and deficit • Associate becomes first-time adopter	√		√ √ √

Transitional exemption or provision	Transitional exemptions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
later or earlier than its controlling entity • Not present investment in associates in consolidated financial statements if three-year relief for recognition and/or measurement and/or elimination option was adopted			
IPSAS 37 • Measure investment in joint venture previously accounted for using proportionate consolidation	√		
IPSAS 39 • Three-year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities • Determine initial liability for defined benefit and other long-term employee benefit plans on date of adoption or when relief period expired • Recognize increase/decrease on date of adoption or when relief period expires in opening accumulated surplus/deficit	√ √		√
IPSAS 41 • Three-year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities *Designation* • Designate financial asset or liability at fair value through surplus or deficit on date of adoption *Impairment* • Apply impairment provisions prospectively on date of adoption	√ √		√
Derecognition • Apply derecognition provisions	√		

Transitional exemption or provision	**Transitional exemptions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis IPSAS	Do not affect fair presentation and compliance with accrual basis IPSAS	Affect fair presentation and compliance with accrual basis IPSAS
prospectively on date of adoption • Apply derecognition provisions retrospectively if information is available as at the date of initial accounting		√	
Hedge accounting • Measure derivatives at fair value • Eliminate all deferred losses and gains • Only reflect hedges that qualify for hedge accounting on date of adoption • Discontinue hedge transaction if conditions of hedge accounting on date of adoption are not met	√ √ √ √		
IPSAS 43 • Where a first-time adopter is a lessee no recognition and/or measurement of lease liability and right-of-use asset if relief period for recognition and/or measurement of assets is adopted • Identification of a lease based on circum-stances at adoption of accrual basis IPSAS	√		√
IPSAS 45 • Three-year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
IPSAS 47 • Relief for recognition and/or measurement of revenue related to adoption of three-year relief period for recognition and/or measurement of assets and/or liabilities			√

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IPSAS 33, *FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS*

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* was issued in November 2025.

Since then, IPSAS 33 has been amended by the following IPSAS Accounting Standards:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)

Table of Amended Paragraphs in IPSAS 33

Paragraph Affected	How Affected	Affected By
36A	New	IPSAS 51 January 2026
AG55	Amended	IPSAS 51 January 2026
AG57	Amended	IPSAS 51 January 2026
AG60A	New	IPSAS 51 January 2026

IPSAS 33, *FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS* – ISSUED IN NOVEMBER 2025

IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*, was first issued in January 2015. The IPSAS Standard was amended several times, primarily as a result of being affected by the issuance of a new IPSAS Standard or by the issuance of minor improvements to IPSAS Standards.

In November 2025 a revised IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, was issued. The objectives of the revision were to make the standard more user-friendly and effective by:

- Rearranging the guidance in the Standard by topic;
- Revising guidance to improve understandability and reduce duplication by removing material that was not relevant to the application of any exemptions or reliefs permitted in this IPSAS Standard;
- Revising relevant guidance to encourage a first-time adopter to apply IPSAS Standards incrementally and as soon as possible by emphasizing the choice to elect to apply or not apply the available exemptions in the Standard;
- Adding non-authoritative guidance, particularly under Implementation Guidance, to support the understanding and application of the Standard; and
- Adding non-authoritative guidance on the pre-adoption planning and preparation phase of the transition to accrual basis IPSAS Standards.

IPSAS 33, *FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS*

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International Public Sector Accounting Standard 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* is set out in paragraphs 1–37. All the paragraphs have equal authority. IPSAS 33 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to ensure that an entity's International Public Sector Accounting Standards (IPSAS) financial statements contain high-quality information that:

   (a) Is transparent for accountability and decision-making purposes;

   (b) Provides a suitable starting point for accounting in accordance with accrual basis IPSAS; and

   (c) Provides benefits that are expected to exceed the costs.

Scope

2. A first-time adopter shall apply this Standard from the date on which it adopts accrual basis IPSAS Standards and prepares and presents its first financial statements after the date of adoption of IPSAS.

3. This Standard does not apply when, for example, a first-time adopter:

   (a) Stops presenting financial statements in accordance with prescribed requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with accrual basis IPSAS;

   (b) Presented financial statements in the previous reporting period in accordance with prescribed requirements and those financial statements contained an explicit and unreserved statement of compliance with accrual basis IPSAS; or

   (c) Presented financial statements in the previous reporting period that contained an explicit and unreserved statement of compliance with accrual basis IPSAS, even if the auditors modified their audit report on those financial statements.

4. This Standard does not apply to changes in accounting policies made by an entity that already applies IPSAS Standards. Such changes are the subject of:

   (a) Requirements on changes in accounting policies in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

   (b) Specific transitional requirements in other IPSAS. The transitional provisions in other IPSAS Standards apply only to changes in accounting policies made by an entity that already applies accrual basis IPSAS; they do not apply to a first-time adopter's transition to IPSAS, except as specified in this Standard.

5. This Standard permits a first-time adopter to apply transitional exemptions and provisions, for a transition period of up to three years, that may impact fair presentation (see paragraph AG19) during the transition period. Where these transitional exemptions and provisions are applied, a first-time adopter is required to disclose information about the transitional exemptions and provisions adopted, and progress towards fair presentation and compliance with accrual basis IPSAS.

6. The first-time adopter will not be able to make an explicit and unreserved statement of compliance with accrual basis IPSAS Standards until the exemptions that provided the relief in this Standard, that affect the fair presentation of the financial statements, have expired and/or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with applicable IPSAS Standards (whichever is earlier).

7. At the end of the transition period a first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS Standards in order to assert compliance with accrual basis IPSAS Standards as required in IPSAS 1, *Presentation of Financial*

Statements. Until such time, financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of all the applicable IPSAS Standards.

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

Date of adoption of IPSAS Standards is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS Standards and for which the entity presents its first transitional IPSAS financial statements or, where the transitional exemptions are not used, its first IPSAS financial statements.

First IPSAS financial statements are the first financial statements that fairly present transactions and balances for the reporting period in compliance with the accrual basis IPSAS, and for which an entity can make an explicit and unreserved statement of compliance with those IPSAS Standards.

First-time adopter is an entity that adopts accrual basis IPSAS Standards for the first time.

Opening statement of financial position is a first-time adopter's statement of financial position at the date of adoption of IPSAS Standards.

Previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSAS Standards.

Transition period is the period during which a first-time adopter applies one or more of the exemptions in this Standard before it complies with the accrual basis IPSAS Standards in full, and before it is able to make an explicit and unreserved statement of such compliance with IPSAS Standards.

Transitional IPSAS financial statements are the financial statements prepared in accordance with this Standard where a first-time adopter cannot make an explicit and unreserved statement of compliance with accrual basis IPSAS Standards because it adopted one or more of the transitional exemptions in this Standard that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS Standards.

Terms defined in other IPSAS Standards are used in this Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately. Specifically, the following term is defined in IPSAS 46, *Measurement,* - Deemed cost is an amount used as a surrogate for transaction price at the measurement date.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards

9. Fair presentation and compliance with accrual basis IPSAS Standards will be affected where the first-time adopter elects to apply any or all of the exemptions and provisions in paragraph AG4 during the transition period, and in the judgment of the first-time adopter, the recognition and/or measurement of the item, transaction or event that are exempted is material in relation to the financial statements as a whole. A first-time adopter shall not apply the exemptions in paragraph AG4 by analogy to any other items which are not specifically referred to in paragraph AG4.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards

10. Fair presentation and compliance with accrual basis IPSAS Standards will not be affected where the first-time adopter elects to apply any or all of the exemptions and provisions in paragraph AG5 during the transition

period. A first-time adopter shall not apply the exemptions in paragraph AG5 by analogy to any other items which are not specifically referred to in paragraph AG5.

Recognition and Measurement

Opening Statement of Financial Position at the Date of Adoption of IPSAS Standards

11. A first-time adopter shall prepare and present an opening statement of financial position at the date of adoption of IPSAS. This is the starting point for its accounting in accordance with accrual basis IPSAS.

Accounting Policies

12. On the date of adoption of IPSAS Standards, a first-time adopter shall apply the requirements of IPSAS Standards retrospectively except if otherwise required or permitted in this Standard.

13. A first-time adopter shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in paragraphs AG10–AG133.

14. A first-time adopter that elects to apply the exemptions in paragraphs AG10–AG133 will be required to amend its accounting policies after the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSAS Standard (whichever is earlier).

15. A first-time adopter shall apply the versions of accrual basis IPSAS Standards effective at the date of adoption of IPSAS Standards. A first-time adopter may apply a new or amended IPSAS Standard that is not yet mandatory if that IPSAS Standard permits early application. Any new or amended IPSAS Standard that becomes effective during the transition period, shall be applied by the first-time adopter from the date it becomes effective, unless the new or amended IPSAS Standard permits early application and the first-time adopter chooses to apply it earlier.

16. The transitional exemptions and provisions in other IPSAS Standards apply to changes in accounting policies made by an entity that already applies accrual basis IPSAS Standards. The transitional exemptions and provisions in this IPSAS Standard apply to a first-time adopter that prepares and presents its annual financial statements on the adoption of, and during the transition to, IPSAS Standards.

Exceptions to the Retrospective Application of IPSAS Standards

17. This Standard prohibits retrospective application of some aspects of other IPSAS Standards. These exceptions are set out in paragraphs 18–21.

Estimates

18. A first-time adopter's estimates in accordance with IPSAS Standards at the date of adoption of IPSAS Standards shall be consistent with estimates made for the same date in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were made in error.

19. A first-time adopter may receive information after the date of adoption of IPSAS Standards about estimates that it had made under its previous basis of accounting. A first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting date in accordance with IPSAS 14, *Events after the Reporting Date*.

20. A first-time adopter may need to make estimates in accordance with IPSAS Standards at the date of adoption of IPSAS Standards or during the transition period that were not required at that date under the previous basis of accounting. To achieve consistency with IPSAS 14, those estimates in accordance with IPSAS Standards shall reflect conditions that existed at the date of adoption of IPSAS Standards or at a date during

the transition period. In particular, estimates determined at the date of adoption of IPSAS Standards or during the transition period of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date. For non-financial assets, such as property, plant, and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgment at the date of adoption of IPSAS Standards or a date during the transition period.

21. Paragraphs 18–20 apply to the opening statement of financial position. Paragraphs 18–20 also apply to a comparative period where a first-time adopter elects to present comparative information in accordance with paragraph AG11, in which case the references to the date of adoption of IPSAS Standards are replaced by references to the end of that comparative period.

Presentation and Disclosures

22. This Standard does not provide exemptions from the presentation and disclosure requirements in other IPSAS Standards except where permitted (see paragraph AG131).

Explanation of Transition to IPSAS Standards

23. A first-time adopter shall disclose:

    (a) The date of adoption of IPSAS Standards; and

    (b) Information and explanations about how the transition from the previous basis of accounting to IPSAS Standards affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.

Disclosures on the Use of IPSAS 33

24. **Where a first-time adopter elects to apply the exemptions in this Standard, the first-time adopter shall disclose:**

    (a) **The extent to which it has elected to apply the exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS Standards; and/or**

    (b) **The extent to which it has taken advantage of the transitional exemptions that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS Standards.**

25. **To the extent that a first-time adopter has taken advantage of the transitional exemptions and provisions in this Standard that affect fair presentation of the financial statements and compliance with accrual basis IPSAS Standards in relation to assets, liabilities, revenue and/or expenses, it shall disclose:**

    (a) **An explicit and unreserved statement of compliance with this Standard, accompanied by a statement that the financial statements do not fully comply with accrual basis IPSAS Standards;**

    (b) **Progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue and/or expenses in accordance with the requirements of the applicable IPSAS Standard;**

    (c) **The assets, liabilities, revenue and/or expenses that have been recognized and measured under an accounting policy that is not consistent with the requirements of applicable IPSAS Standard;**

    (d) **The assets, liabilities, revenue and/or expenses that have not been measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;**

(e) **The nature and amount of any adjustments recognized during the reporting period; and**

(f) **An indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS Standard.**

26. **Where a first-time adopter elects to apply the exemption not to eliminate some inter-entity balances, transactions, revenue and expenses, and/or where a first-time adopter applies the transition period for the recognition and/or measurement of its interest in controlled entities, associates or joint ventures, it shall disclose the nature of the balances, transactions, revenue and expenses and/or upstream or downstream transactions that have been eliminated during the reporting period.**

27. **Where a first-time adopter is not able to present consolidated financial statements because of the transitional exemptions and provisions adopted in paragraphs AG39 or AG42, it shall disclose:**

(a) **The reason why the financial statements, investments in associates or interests in joint ventures could not be presented as consolidated financial statements; and**

(b) **An indication by when the first-time adopter will be able to present consolidated financial statements.**

Reconciliations

28. **A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present the reconciliations required in paragraph 29.**

29. **A first-time adopter shall present in the notes to its first transitional IPSAS financial statements or its first IPSAS financial statements:**

(a) **A reconciliation of its balance of net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS Standards; and**

(b) **A reconciliation of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS Standards.**

30. The reconciliation presented in accordance with paragraph 29 shall provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening statement of financial position and, where applicable, the restated comparative statement of financial performance presented in accordance with accrual basis IPSAS Standards. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents shall be included in the notes.

31. If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 29 shall distinguish the correction of those errors from changes in accounting policies.

32. **If an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact.**

33. **Where a first-time adopter elects to apply the exemptions which allow a transition period not to recognize and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognized and/or measured in accordance with this Standard.**

34. The reconciliation presented in accordance with paragraph 33 shall provide sufficient detail to enable users to understand which items have been recognized and/or measured during the reporting period where the first-time adopter applies one or more of the exemptions that provide a transition period not to recognize

first-time adopter applies one or more of the exemptions that provide a transition period not to recognize and/or measure an item. The reconciliation shall explain the adjustments to the previously reported statement of financial position and, where applicable, the previously reported statement of financial performance in each period when new items are recognized and/or measured in accordance with this Standard.

Transitional Provisions in Other IPSAS Standards

35. **Where a first-time adopter has adopted the existing transitional provisions in other accrual basis IPSAS Standards, it shall continue to apply those transitional provisions until they expire and/or the relevant items are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier). If the first-time adopter elects to apply the transitional exemptions in this Standard, the transition period applied in adopting accrual basis IPSAS Standards shall not be longer than three years.**

Effective Date

36. **A first-time adopter shall apply this Standard if its first IPSAS financial statements or its first transitional financial statements are for a period beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.**

36A. **Paragraphs AG55(m), AG57(j) and AG60A were added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

Withdrawal and Replacement of IPSAS 33 (January 2015)

37. This Standard supersedes IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*, issued in 2015. IPSAS 33 issued in 2015 remains applicable until this Standard is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 33.

Objective

AG1. The objective of this Standard is to provide guidance to a first-time adopter of accrual basis IPSAS Standards, irrespective of the basis of accounting the adopter has used prior to the date of adoption of IPSAS Standards.

Scope

AG2. This Standard permits a first-time adopter to apply transitional exemptions and provisions (refer to paragraphs AG4 and AG5) for a transition period after the date of adoption of IPSAS Standards. The objective of those exemptions that affect fair presentation and compliance with accrual basis IPSAS Standards is to allow a first-time adopter a transition period to develop reliable models and/or other procedures for recognizing and/or measuring items in accordance with accrual basis IPSAS Standards. This Standard does not apply to the period prior to the date of adoption of IPSAS Standards, or the period following the end of the transition period.

AG3. In developing reliable models and/or other procedures, a first-time adopter shall apply the guidance in IPSAS 46, *Measurement,* when measuring assets and/or liabilities.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph 9)

AG4. A first-time adopter may elect to apply the exemptions in the following paragraphs:

(a) General Principles (refer to paragraph AG19);

(b) Accounting Boundaries (refer to paragraphs AG38–AG46);

(c) Non-Financial Assets (refer to paragraphs AG56–AG60);

(d) Financial Assets and Liabilities (refer to paragraphs AG82–AG84);

(e) Revenue and Transfer Expenses (refer to paragraphs AG108–AG110); and

(f) Other Expenses and Non-Financial Liabilities (refer to paragraphs AG112–AG116).

(g) Disclosures and Other Standards (refer to paragraph AG133).

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph 10)

AG5. A first-time adopter may elect to apply the exemptions in the following paragraphs, without affecting fair presentation or compliance with accrual basis IPSAS Standards:

(a) Financial Statements (refer to paragraphs AG11–AG16);

(b) General Principles (refer to paragraphs AG21–AG36);

(c) Accounting Boundaries (refer to paragraphs AG47–AG54);

(d) Non-Financial Assets (refer to paragraphs AG61–AG80);

(e) Financial Assets and Liabilities (refer to paragraphs AG85–AG106);

(f) Other Expenses and Non-Financial Liabilities (refer to paragraphs AG117–AG130); and

(g) Disclosures and Other Standards (refer to paragraph AG133).

Definitions

AG6. The date of adoption of IPSAS Standards is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS Standards and for which it presents its first transitional IPSAS financial statements or, where the transition exemptions are not used, its first IPSAS financial statements.

AG7. The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSAS Standards. Previous bases might be a cash basis of accounting, an accrual basis of accounting, a modified version of either a cash basis or an accrual basis of accounting, or another prescribed basis.

AG8. The transition period is the period during which a first-time adopter can elect to apply exemptions described in paragraphs AG10–AG133. The transition period is limited to a maximum of three years but can be shorter if the first-time adopter is able to apply accrual basis IPSAS Standards in a period of less than three years. During the transition period, a first-time adopter may apply one or more of the exemptions in this Standard that do and/or do not affect fair presentation and compliance with accrual basis IPSAS Standards. Where exemptions are applied that affect fair presentation and compliance with accrual basis IPSAS Standards, the first-time adopter will still be in the transition period and would not be able to make an explicit and unreserved statement of compliance with IPSAS Standards. When the first-time adopter complies with all applicable accrual basis IPSAS Standards, and is able to make an explicit and unreserved statement of such compliance with IPSAS Standards, the transition period will come to an end at that date, which must occur by the end of the third year at the latest.

AG9. Except as described in paragraphs AG10–AG133, a first-time adopter shall, in its opening statement of financial position:

(a) Recognize all assets and liabilities whose recognition is required by IPSAS Standards;

(b) Not recognize items as assets or liabilities if IPSAS Standards do not permit such recognition;

(c) Reclassify items that it recognized in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSAS Standards; and

(d) Apply IPSAS Standards in measuring all recognized assets and liabilities.

Financial Statements (refer to paragraph (a))

AG10. The following Standards are relevant:

(a) IPSAS 1, *Presentation of Financial Statements;*

(b) IPSAS 2, *Cash Flow Statements;*

(c) IPSAS 22, *Disclosure of Financial Information about the General Government Sector*; and

(d) IPSAS 24, *Presentation of Budget Information in Financial Statements.*

The following paragraphs provide more detail on any exemptions that apply to these Standards.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

IPSAS 1

Comparative Information

AG11. A first-time adopter may elect not to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this Standard. Where a first-time adopter elects to present comparative information, it shall be presented in accordance with the requirements of IPSAS 1 and, where appropriate, with the requirements of paragraph 29 of this Standard.

AG12. Where a first-time adopter elects to present comparative information, the first transitional IPSAS financial statements or the first IPSAS financial statements presented in accordance with this Standard shall include:

(a) One statement of financial position with comparative information for the preceding period, and an opening statement of financial position as at the date of adoption of IPSAS Standards;

(b) One statement of financial performance with comparative information for the preceding period;

(c) One statement of changes in net assets/equity with comparative information for the preceding period;

(d) One cash flow statement with comparative information for the preceding period;

(e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and

(f) Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 29.

AG13. Where a first-time adopter elects not to present comparative information, its first transitional IPSAS financial statements following the adoption of accrual basis IPSAS Standards or its first IPSAS financial statements presented in accordance with this Standard shall include:

(a) One statement of financial position, and an opening statement of financial position at the date of adoption of IPSAS Standards;

(b) One statement of financial performance;

(c) One statement of changes in net assets/equity;

(d) One cash flow statement;

(e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and

(f) Related notes and the disclosure of narrative information about material adjustments as required by paragraph 29.

AG14. IPSAS 1 requires an entity to present comparative information in respect of the previous period for all amounts reported in the financial statements. Where a first-time adopter elects to apply any of the exemptions which allow a transition period not to recognize and/or measure an item, comparative information for the year following the date of adoption of IPSAS Standards shall be adjusted only when information is available about the items following their recognition and/or measurement during the transition period.

Comparative Information According to Previous Basis of Accounting (Non-IPSAS Comparative Information)

AG15. A first-time adopter may present comparative information in accordance with its previous basis of accounting, but shall label that information as not being prepared in accordance with IPSAS Standards, and disclose the nature of the main adjustments that would be required to comply with IPSAS Standards. The transitional exemptions and provisions provided in this Standard shall not be applied to the non-IPSAS comparative information presented.

Non-IPSAS Historical Summaries

AG16. A first-time adopter may elect to present historical summaries of selected data for periods before the first period for which it presents financial statements in accordance with IPSAS Standards. This Standard does not require such summaries to comply with the recognition and measurement requirements of IPSAS Standards. The first-time adopter shall label the previous basis of accounting information prominently as not being prepared in accordance with IPSAS Standards, and disclose the nature of the main adjustments that would be required to comply with IPSAS Standards. The first-time adopter does not need to quantify those adjustments.

General Principles (refer to paragraphs (a) and (b))

AG17. The following Standards are relevant:

(a) IPSAS 3, *Accounting Polices, Changes in Accounting Estimates and Errors;*

(b) IPSAS 4, *The Effects of Changes in Foreign Exchange Rates;*

(c) IPSAS 10, *Financial Reporting in Hyperinflationary Economies;*

(d) IPSAS 14, *Events after the Reporting Date*; and

(e) IPSAS 46, *Measurement*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

IPSAS 3

AG18. The accounting policies that a first-time adopter uses in financial statements may differ from those that it used at the end of its comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of adoption of IPSAS Standards. Therefore, a first-time adopter shall recognize those adjustments to the opening balance of accumulated surplus or deficit in the period in which the items are recognized and/or measured (or, if appropriate, another category of net assets/equity).

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (a))

AG19. A first-time adopter shall only change its accounting policies during the transition period to conform to the accounting policies in accrual basis IPSAS Standards, and may retain its existing accounting policies until the exemptions that provided the relief have expired or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSAS Standard (whichever is earlier).

AG20. A first-time adopter selects its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories is permitted in the applicable IPSAS Standard. Recognition and/or measurement of assets and/or liabilities and/or revenue and/or expenses in accordance with the accounting policy selected for the class or category

may occur on an item-by-item basis as reliable information becomes available to support such recognition and/or measurement during the transition period.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (b))

IPSAS 4

AG21. A first-time adopter may elect not to measure cumulative translation differences that exist at the date of adoption of IPSAS Standards. If a first-time adopter uses this exemption:

(a) The cumulative translation differences for all foreign operations are deemed to be zero at the date of adoption of IPSAS Standards; and

(b) The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of adoption of IPSAS Standards and shall include later translation differences.

AG22. A first-time adopter may elect not to apply Appendix A of IPSAS 4 to assets, revenue and expenses in the scope of that Appendix and that were initially recognized before the date of adoption of IPSAS Standards.

AG23. Instead of applying paragraph AG21, a controlled entity that uses the exemption in paragraph AG47(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of adoption of IPSAS Standards, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity. A similar election is available to an associate or joint venture that uses the exemption in paragraph AG47(a).

AG24. A first-time adopter shall apply the requirement to treat any goodwill (see IPSAS 40, *Public Sector Combinations*) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of adoption of IPSAS Standards.

AG25. In applying the transitional exemption in paragraph AG21, a first-time adopter shall not restate prior years for the acquisition of a foreign operation acquired prior to the date of adoption of IPSAS Standards, and accordingly shall, where appropriate, treat goodwill and fair value adjustments arising on acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation.

IPSAS 10

Severe Hyperinflation

AG26. If a first-time adopter has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of adoption of IPSAS Standards.

AG27. The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) A reliable general price index is not available to all entities with transactions and balances in the currency; and

(b) Exchangeability between the currency and a relatively stable foreign currency does not exist.

AG28. The functional currency of a first-time adopter ceases to be subject to severe hyperinflation on the functional currency normalization date. That is the date when the functional currency no longer has either, or both, of

the characteristics in paragraph AG27 or when there is a change in the first-time adopter's functional currency to a currency that is not subject to severe hyperinflation.

AG29. When a first-time adopter's date of adoption of IPSAS Standards is on, or after, the functional currency normalization date, the first-time adopter may elect to measure all assets and liabilities held before the functional currency normalization date at current value at the date of adoption of IPSAS Standards. The first-time adopter may use that current value as the deemed cost of those assets and liabilities in the opening statement of financial position.

IPSAS 46

Use of a Current Value as Deemed Cost

AG30. If a first-time adopter uses a current value measurement basis (i.e., current operational value or fair value) as deemed cost for inventory, investment property, property, plant, and equipment, intangible assets, right-of-use assets, financial instruments, or service concession assets, its financial statements shall disclose:

(a) The aggregate of those current values that were considered in determining deemed cost;

(b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and

(c) Whether the deemed cost was determined at the date of adoption of IPSAS Standards or during the transition period.

AG31. If a first-time adopter uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, joint venture or associate in its separate financial statements, its separate financial statements shall disclose:

(a) The aggregate deemed cost of those investments for which deemed cost is fair value; and

(b) The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.

AG32. The disclosure requirements required in paragraphs AG30 and AG31 shall be disclosed in each period when new items are recognized and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS Standards (whichever is earlier).

Use of Deemed Cost to Measure Assets Acquired Through a Non-Exchange Transaction

AG33. A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its current value, in accordance with the requirements of IPSAS 46, when reliable cost information about the asset is not available and use that current value as its deemed cost.

Use of Deemed Cost after Severe Hyperinflation

AG34. If a first-time adopter elects to measure assets and liabilities at a current value and to use that current value as the deemed cost in its opening IPSAS Statement of Financial Position because of severe hyperinflation (see paragraph AG26), the first-time adopter's first IPSAS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of these characteristics:

(a) A reliable general price index is not available to all entities with transactions and balances in the currency; and

(b) Exchangeability between the currency and a relatively stable foreign currency does not exist.

Date at which Deemed Cost can be Determined

AG35. The date on which deemed cost is determined may vary depending on whether the first-time adopter elects to apply the exemptions not to recognize and/or measure certain assets and/or liabilities. When the first-time adopter elects to apply the exemption, deemed cost can be determined at any date during the transition period, or on the date that the exemption expires (whichever is earlier) and shall be recognized in accordance with paragraph AG36. If a first-time adopter does not elect to apply the exemption, deemed cost shall be determined at the beginning of the earliest period for which the first-time adopter presents IPSAS financial statements.

AG36. When a deemed cost is determined during the transition period, a first-time adopter shall recognize the adjustment against the opening accumulated surplus or deficit in the year in which the deemed cost of the asset and/or liability is recognized and/or measured.

Accounting Boundaries (refer to paragraphs (b) and (c))

AG37. The following Standards are relevant:

(a) IPSAS 34, *Separate Financial Statements;*

(b) IPSAS 35, *Consolidated Financial Statements;*

(c) IPSAS 36, *Investments in Associates and Joint Ventures;*

(d) IPSAS 37, *Joint Arrangements;*

(e) IPSAS 38, *Disclosure of Interests in Other Entities*; and

(f) IPSAS 40, *Public Sector Combinations*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (b))

IPSAS 34

AG38. Where a first-time adopter has not recognized its interests in controlled entities, associates or joint ventures under its previous basis of accounting, it may elect not to recognize and/or measure its interests in other entities as controlled entities, associates or joint ventures during the transition period.

IPSAS 35

AG39. Subject to paragraph AG38, a first-time adopter shall present consolidated financial statements following the adoption of accrual basis IPSAS Standards. A first-time adopter presenting consolidated financial statements is, however, not required to eliminate all balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within the transition period.

AG40. At the date of adoption of IPSAS Standards, a first-time adopter may have controlled entities with a significant number of transactions between controlled entities. A first-time adopter may elect to eliminate all balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within the transition period.

AG41. Where a first-time adopter has taken advantage of the transitional exemption in paragraph AG39, it shall not present financial statements as consolidated financial statements until:

(a) The exemptions that provided the relief have expired; and

(b) Its interests in other entities have been appropriately recognized and/or measured as controlled entities, associates or joint ventures; or

(c) Inter-entity balances, transactions, revenue and expenses between entities within the economic entity are eliminated (whichever is earlier).

IPSAS 36

AG42. When a first-time adopter applies the equity method on adoption of IPSAS 36, the first-time adopter may elect not to eliminate its share in the surplus and deficit resulting from upstream and downstream transactions between the first-time adopter and its associate or joint venture for reporting periods beginning on a date within the transitional period.

AG43. Where a first-time adopter has taken advantage of the transitional exemption in paragraph AG38 and/or AG42, it shall not present financial statements in which investments in associates or joint ventures are accounted for using the equity method until:

(a) The exemptions that provided the relief have expired; and

(b) The interests in other entities have been appropriately recognized and/or measured as an associate or joint venture; or

(c) Its share in the associate's surplus and deficit resulting from upstream and downstream transactions between the investor and the investee are eliminated (whichever is earlier).

IPSAS 40

AG44. Where a first-time adopter applies the exemption which allows a transition period not to recognize and/or measure assets and/or liabilities, the first-time adopter may be a party to a public sector combination during that transition period. The first-time adopter may elect not to recognize and/or measure the assets and/or liabilities associated with the public sector combination, until the exemption that provided the relief has expired and/or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSAS Standards (whichever is earlier).

AG45. Where a first-time adopter applies the exemption in paragraph AG44 it shall not recognize goodwill in respect of an acquisition. The first-time adopter shall recognize the difference between (a) and (b) below in net assets/equity:

(a) The aggregate of:

(i) Any consideration transferred;

(ii) Any non-controlling interests in an acquired operation; and

(iii) Any previously held equity interests in an acquired operation.

(b) The net amounts of any identifiable assets acquired, and the liabilities assumed.

AG46. IPSAS 40 is applied prospectively. Consequently, a first-time adopter does not adjust any amounts of goodwill recognized as a result of a public sector combination that occurred prior to the application of IPSAS 40.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (c))

IPSAS 34

AG47. If the date of adoption of IPSAS Standards for a controlled entity, except for a controlled entity of an investment entity, is later than the date of adoption of IPSAS Standards for its controlling entity, then the controlled entity shall, in its separate financial statements, measure its assets and/or liabilities at either:

(a) The carrying amounts, determined in accordance with this Standard, that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSAS Standards, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity; or

(b) The carrying amounts required by the rest of this Standard, based on the controlled entity's date of adoption of IPSAS Standards.

A similar election is available to an associate or joint venture if the date of adoption of IPSAS Standards for the associate or joint venture is later than the date of adoption of IPSAS Standards for the entity that has significant influence or joint control over it.

AG48. Where a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, at the date of adoption of IPSAS Standards, elect to measure that investment at one of the following amounts in its separate opening statement of financial position:

(a) Cost; or

(b) Deemed cost. The deemed cost of such an investment shall be its fair value (determined in accordance with IPSAS 41, *Financial Instruments*) at the first-time adopter's date of adoption of IPSAS Standards in its separate financial statements.

AG49. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring it at its fair value at one particular date because of a specific event. In such instances, a first-time adopter applies paragraph AG48(a) and (b).

IPSAS 35

AG50. A first-time adopter that is a controlled entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at the date of adoption of IPSAS Standards, and measure its investment in each controlled entity at fair value through surplus or deficit at the date of adoption of IPSAS Standards.

Non-controlling Interests

AG51. A first-time adopter shall apply the following requirements of IPSAS 35 prospectively from the date of transition to IPSAS Standards:

(a) The requirement in paragraph 49 of IPSAS 35 that the total amount recognized in the statement of changes in net assets/equity is attributed to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

(b) The requirements in paragraphs 48 and 51 of IPSAS 35 for accounting for changes in the controlling entity's interest in a controlled entity that do not result in the loss of control; and

(c) The requirements in paragraphs 53-55 of IPSAS 35 for accounting for a loss of control over a controlled entity, and the related requirements of paragraph 14 of IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*.

IPSAS 37

AG52. Where a first-time adopter accounted for its investment in a joint venture under its previous basis of accounting using proportionate consolidation, the investment in the joint venture shall be measured at the date of adoption of IPSAS Standards as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (see IPSAS 40).

AG53. The opening balance of the investment determined in accordance with paragraph AG52 is regarded as the deemed cost of the investment at initial recognition. A first-time adopter shall test the investment for impairment at the date of adoption of IPSAS Standards, regardless of whether there is any indication that the investment may be impaired. Any impairment loss shall be adjusted to the accumulated surplus or deficit at the date of adoption of IPSAS Standards.

AG54. If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, the first-time adopter shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the first-time adopter shall recognize a corresponding liability. If the first-time adopter concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognize the corresponding liability, but it shall adjust accumulated surplus or deficit at the date of adoption of IPSAS Standards. The first-time adopter shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures at the date of adoption of IPSAS Standards.

Non-Financial Assets (refer to paragraphs (c) and (d))

AG55. The following Standards are relevant:

(a) IPSAS 5, *Borrowing Costs*;

(b) IPSAS 12, *Inventories*;

(c) IPSAS 16, *Investment Property*;

(d) IPSAS 21, *Impairment of Non-Cash-Generating Assets;*

(e) IPSAS 26, *Impairment of Cash-Generating Assets;*

(f) IPSAS 27, *Agriculture*;

(g) IPSAS 31, *Intangible Assets;*

(h) IPSAS 32, *Service Concession Arrangements: Grantor;*

(i) IPSAS 43, *Leases* (for Right-of-use assets);

(j) IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations;*

(k) IPSAS 45, *Property, Plant, and Equipment;*

(l) IPSAS 50, *Exploration for and Evaluation of Mineral Resources*; and

(m) IPSAS 51, *Tangible Natural Resources Held for Conservation*

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer paragraph (c))

AG56. Where a first-time adopter has recognized the following non-financial assets under its previous basis of accounting, it may take advantage of the transition period and may change its accounting policy/policies in respect of the measurement of these non-financial assets to comply with the requirements of IPSAS Standards from any date within the transition period:

(a) Inventories (see IPSAS 12, *Inventories*);

(b) Investment property (see IPSAS 16, *Investment Property*);

(c) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);

(d) Intangible assets (see IPSAS 31, *Intangible Assets*);

(e) Service concession assets either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);

(f) Right-of-use assets (see IPSAS 43, *Leases*); and

(g) Property, plant, and equipment (see IPSAS 45, *Property, Plant, and Equipment*).

AG57. Where a first-time adopter has not recognized the following non-financial assets under its previous basis of accounting, it may take advantage of the transition period and may recognize and/or measure them in accordance with the requirements of IPSAS Standards for reporting periods from any date within the transition period:

(a) Inventories (see IPSAS 12, *Inventories*);

(b) Stripping activity assets (see IPSAS 12, *Inventories*);

(c) Investment property (see IPSAS 16, *Investment Property*);

(d) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);

(e) Intangible assets (see IPSAS 31, *Intangible Assets*);

(f) Service concession assets either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);

(g) Right-of-use assets (see IPSAS 43, *Leases*);

(h) Property, plant, and equipment (see IPSAS 45, *Property, Plant, and Equipment*);

(i) Exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources*); and

(j) Tangible natural resources held for conservation (see IPSAS 51, *Tangible Natural Resources Held for Conservation*.)

IPSAS 5

AG58. Where a first-time adopter applies the exemption which allows a transition period not to recognize and/or measure assets, and elects to account for borrowing costs in terms of the allowed alternative treatment (see paragraphs 17-39 of IPSAS 5), it is not required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of IPSAS Standards, until the exemption that provided the relief has expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier). Only when the exemptions that provided the relief have expired, and/or when the relevant assets are recognized and/or

measured in accordance with the applicable IPSAS Standard (whichever is earlier) will a first-time adopter be allowed to capitalize borrowing costs incurred on the qualifying assets in accordance with the allowed alternative treatment.

IPSAS 12 (Appendix A)

AG59. This IPSAS Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize non-financial assets in accordance with IPSAS 45 or IPSAS 31, whichever applies. Where a first-time adopter takes advantage of the exemption not to recognize and/or measure non-financial assets in accordance with IPSAS 45 or IPSAS 31, whichever applies, it is not required to recognize stripping activity assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

IPSAS 50

AG60. This IPSAS Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize non-financial assets in accordance with IPSAS 45. Where a first-time adopter takes advantage of the exemption not to recognize and/or measure non-financial assets in accordance with IPSAS 45, it is not required to recognize exploration and evaluation assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

IPSAS 51

AG60A. This IPSAS Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize non-financial assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS Standards at the same time as considering the recognition of tangible natural resources in IPSAS 51. Where a first-time adopter takes advantage of the exemption in this Standard, it is not required to recognize tangible natural resources held for conservation until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (d))

AG61. The use of deemed cost is not considered a revaluation or the application of the current value model for subsequent measurement in accordance with other IPSAS Standards.

AG62. If observable inputs of current value are not available for inventory, or investment property that is of a specialized nature, or property, plant, and equipment, a first-time adopter may consider other measurement techniques in determining a deemed cost in accordance with IPSAS 46.

IPSAS 5

AG63. A first-time adopter is encouraged, but not required, to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment (see paragraphs 14–15 of IPSAS 5).

AG64. Where a first-time adopter adopts or changes its accounting policy to the benchmark treatment, it is allowed to designate any date before the date of adoption of IPSAS Standards and apply IPSAS 5 prospectively on or after that designated date.

AG65. Where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred both before and after the date of adoption of IPSAS Standards on qualifying assets for which

the commencement date for the capitalization is prior to the date of adoption of IPSAS Standards, shall be recognized retrospectively in accordance with the allowed alternative treatment.

IPSAS 12

AG66. A first-time adopter may elect to measure inventory at current operational value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that current operational value or fair value as the deemed cost. In this case the first-time adopter provides the disclosures required by paragraph AG30 of this Standard.

IPSAS 16

AG67. A first-time adopter may elect to measure investment property, if the first-time adopter elects to use the historical cost model in IPSAS 16, at fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that fair value as the deemed cost. In this case the first-time adopter provides the disclosures required by paragraph AG30 of this Standard.

IPSAS 21 and IPSAS 26

AG68. A first-time adopter shall apply the requirements in IPSAS 21 and IPSAS 26 prospectively from the date of adoption of IPSAS Standards, except in relation to those assets where a first-time adopter elects to apply the exemption which allows a transition period not to recognize and/or measure assets. When a first-time adopter elects to apply the exemption it applies IPSAS 21 and IPSAS 26 prospectively when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier).

AG69. On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the assets recognized and/or measured are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit at the date of adoption of IPSAS Standards, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).

IPSAS 31

AG70. A first-time adopter may elect to measure intangible assets, other than internally generated intangible assets, at fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that fair value as the deemed cost when the intangible assets meet: (i) the recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and (ii) the criteria in IPSAS 31 for revaluation (including the existence of an active market). In this case the first-time adopter provides the disclosures required by paragraph AG30 of this Standard.

AG71. A first-time adopter shall recognize and/or measure an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. Internally generated intangible assets shall not be measured at deemed cost.

IPSAS 32

AG72. A first-time adopter may elect to measure service concession assets at fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that fair value as the deemed cost. In this case the first-time adopter provides the disclosures required by paragraph AG30 of this Standard.

IPSAS 43

AG73. A first-time adopter may elect to measure right-of-use assets at current operation value or fair value, in accordance with IPSAS 46, when reliable cost information about the assets is not available and use that current operational value or fair value as the deemed cost. In this case, the first-time adopter provides the disclosures required by paragraph AG30 of this Standard.

IPSAS 45

AG74. A first-time adopter may elect to use the current value of property, plant, and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value, when the property, plant, and equipment is held for its financial capacity; or

(b) Current operational value, when the property, plant, and equipment is held for its operational capacity.

AG75. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant, and equipment by measuring it at current operational value or fair value at one particular date because of a specific event:

(a) If the measurement date is at or before the date of adoption of IPSAS Standards, a first-time adopter may use such event-driven current operational value or fair value measurements as deemed cost for IPSAS Standards at the date of that measurement.

(b) If the measurement date is after the date of adoption of IPSAS Standards, but during the transition period where the first-time adopter elects to apply the exemption not to recognize and/or measure certain assets, the event-driven current operational value or fair value measurements may be used as deemed cost when the event occurs.

AG76. In measuring the current value in accordance with paragraph AG74, the first-time adopter shall apply the definition of fair value, or current operational value, and guidance in IPSAS 46.

AG77. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSAS Standards, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraph 20 of this Standard and paragraph 58 of IPSAS 45). However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSAS Standards (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSAS Standards.

AG78. Subsequent depreciation is based on deemed cost and starts from the date on which the first-time adopter determined the deemed cost, or where the first-time adopter elects to apply the exemption not to recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with IPSAS 45 (whichever is earlier).

AG79. If a first-time adopter chooses the current value model in IPSAS 45 for some or all classes of property, plant, and equipment as its accounting policy, it presents the cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSAS Standards is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair value at the date of adoption of IPSAS Standards or where the first-time adopter elects to apply the exemption that provides a transition period not to recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with IPSAS 45 (whichever is earlier), the first-time adopter provides the disclosures required by paragraph AG30 of this Standard.

AG80. If revaluations in accordance with the first-time adopter's previous basis of accounting did not satisfy the criteria in paragraph AG74 and AG76 of this Standard, the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

(a) Cost less any accumulated depreciation and any accumulated impairment losses under the cost model in IPSAS 45;

(b) Deemed cost, being the current value at the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption that provides a transition period not to recognize and/or measure certain assets, the date on which the asset is recognized and/or measured during the transition period, or when the transitional exemptions expire (whichever is earlier); or

(c) A revalued amount, if the entity adopts the current value model in IPSAS 45 as its accounting policy in accordance with IPSAS Standards for all items of property, plant, and equipment in the same class.

Financial Assets and Liabilities (refer to paragraphs (d) and (e))

AG81. The following Standards are relevant:

(a) IPSAS 28, *Financial Instruments: Presentation*;

(b) IPSAS 30*, Financial Instruments: Disclosures*; and

(c) IPSAS 41, *Financial Instruments.*

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (d))

AG82. Where a first-time adopter has recognized financial assets and/or financial liabilities under its previous basis of accounting, it may elect not to change its accounting policy/policies in respect of the measurement of these assets and/or liabilities for reporting periods beginning on a date within the transition period.

AG83. Where a first-time adopter has not recognized financial assets and/or financial liabilities under its previous basis of accounting, it may elect not to recognize and/or measure these assets and/or liabilities for reporting periods beginning on a date within the transition period.

AG84. To the extent that a first-time adopter applies the exemptions transition period not to recognize and/or measure financial assets, it is not required to recognize and/or measure any related revenue in accordance with IPSAS 47, *Revenue*.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (e))

IPSAS 28

AG85. On the date of adoption of IPSAS Standards, a first-time adopter shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net asset/equity component. If the liability component is no longer outstanding at the date of adoption of IPSAS Standards, the first-time adopter does not need to separate the compound financial instrument into a liability component and a net asset/equity component, notwithstanding the requirement in paragraph 33 of IPSAS 28 to split a compound financial instrument at inception into separate liability and net asset/equity components.

IPSAS 30

AG86. Where the first-time adopter elects to present comparative information in accordance with paragraphs AG11–AG13 of this Standard, it is not required to present information about the nature and extent of risks arising from financial instruments for the comparative period in its first transitional IPSAS financial statements or its first IPSAS financial statements.

AG87. A first-time adopter shall apply the requirements in IPSAS 30 prospectively from the date of adoption of IPSAS Standards, or when the exemptions that provided the relief have expired, and/or when the relevant financial instrument is recognized and/or measured in accordance with IPSAS 41 (whichever is earlier).

IPSAS 41

AG88. A first-time adopter may elect to measure financial assets and financial liabilities at their fair value in accordance with IPSAS 46, when reliable cost information about the financial assets or financial liabilities is not available and use that fair value as the deemed cost. In this case the first-time adopter provides the disclosures required by paragraph AG30 of this Standard.

Designation of Financial Instruments at the Date of Adoption of IPSAS Standards or during the Transition Period

AG89. A first-time adopter may designate a financial asset or financial liability as a financial asset or financial liability at fair value through surplus or deficit that meets the criteria for designation in IPSAS 41, in accordance with paragraph AG90. A first-time adopter shall disclose the fair value of financial assets and financial liabilities designated into each category at the date of designation, their classification and carrying amount.

AG90. IPSAS 41 permits a financial asset or financial liability to be designated on initial recognition (provided it meets certain criteria) as a financial asset or financial liability as at fair value though surplus or deficit. Despite this requirement, an exception applies when a first-time adopter is permitted to designate, at the date of adoption of IPSAS Standards, any financial asset or financial liability as at fair value through surplus or deficit provided the asset meets the criteria in paragraph 44 of IPSAS 41 or the liability meets the criteria in paragraph 46 of IPSAS 41 at that date.

AG91. A first-time adopter may designate an investment in an equity instrument as at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS Standards.

Derecognition of Financial Assets and Financial Liabilities

AG92. Except as permitted by paragraph AG93, a first-time adopter shall apply the derecognition requirements in IPSAS 41 prospectively for transactions occurring on or after the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemptions not to recognize financial instruments, the date on which the exemptions that provided the relief have expired and/or the financial instruments are recognized (whichever is earlier).

AG93. Notwithstanding the provision in paragraph AG92, a first-time adopter may apply the derecognition requirements in IPSAS 41 retrospectively from a date that the first-time adopter chooses, provided that the information needed to apply IPSAS 41 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for these transactions.

Hedge Accounting

AG94. As required by IPSAS 41, a first-time adopter shall at the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption not to recognize and/or measure financial instruments during the transition period, the date when the exemption that provided the relief has expired and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier):

(a) Measure all derivatives at fair value; and

(b) Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with its previous basis of accounting as if they were assets or liabilities.

AG95. A first-time adopter shall not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IPSAS 41 (for example, many hedging relationships where the hedging instrument is a stand-alone written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if a first-time adopter designated a net position as a hedged item in accordance with its previous basis of accounting, it may designate, as a hedged item in accordance with IPSAS Standards, an individual item within that net position, or a net position if that meets the requirements in paragraph 146 of IPSAS 41, provided that it does so no later than the date of adoption of IPSAS Standards or where it elects to apply the exemption that provides a transition period not to recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier).

AG96. If, before the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption not to recognize and/or measure financial instruments, the date on which the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier), a first-time adopter had designated a transaction as a hedge but the hedge did not meet the conditions for hedge accounting in IPSAS 41, the first-time adopter shall apply paragraphs 135 and 136 of IPSAS 41 to discontinue hedge accounting. Transactions entered into before the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption that provides a transition period not to recognize and/or measure financial instruments, the date when the transitional exemption expires and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 41 (whichever is earlier), shall not be retrospectively designated as hedges.

Classification and Measurement of Financial Instruments

AG97. A first-time adopter shall assess whether a financial asset meets the conditions in paragraph 40 or the conditions in paragraph 41 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS Standards.

AG98. Where a first-time adopter finds it impracticable to assess a modified time value of money element for a financial asset in accordance with paragraphs AG68–AG70 of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS Standards, a first-time adopter shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of IPSAS Standards without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70 of IPSAS 41. (In this case, the entity shall also apply paragraph 49R of IPSAS 30 but references to ‘paragraph 161 of IPSAS 41’ shall be read to mean this paragraph and references to ‘initial recognition of the financial asset’ shall be read to mean ‘at the date of adoption of IPSAS Standards’.)

AG99. If it is impracticable to assess whether the fair value of a prepayment feature for a financial asset is insignificant in accordance with paragraph AG74(c) of IPSAS 41 on the basis of the facts and circumstances that exist at the date of adoption of IPSAS Standards, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of IPSAS Standards without taking into account the exception for prepayment features in paragraph AG74 of IPSAS 41. (In this case, the entity shall also apply paragraph 49S of IPSAS 30 but references to ‘paragraph 162 of IPSAS 41’ shall be read to mean this paragraph and references to ‘initial recognition of the financial asset’ shall be read to mean ‘at the date of adoption of IPSAS Standards’.)

AG100. If it is impracticable for an entity to apply retrospectively the effective interest method in IPSAS 41, the fair value of the financial asset or the financial liability at the date of adoption of IPSAS Standards shall be the new gross carrying amount of that financial asset or the new amortized cost of that financial liability at the date of adoption of IPSAS Standards.

Impairment of Financial Assets

AG101. A first-time adopter shall apply the impairment requirements prospectively from the date of adoption of IPSAS Standards, except in relation to those financial assets where it elects to apply the exemptions not to recognize and/or measure financial assets. Where a first-time adopter elects to apply the exemption not to recognize financial assets, it applies the impairment provisions when the exemption that provided the relief has expired, and/or when the relevant financial assets are recognized and/or measured in accordance with IPSAS 41 (whichever is earlier).

AG102. A first-time adopter shall on the date of adoption of IPSAS Standards, or when the exemptions that provided the relief have expired, and/or when the relevant financial instruments are recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS Standard (whichever is earlier), assess at that date whether there is any indication that the financial instrument recognized and/or measured in the statement of financial position, is impaired. Any impairment loss incurred shall be recognized in opening accumulated surplus or deficit in the period in which the financial instrument is recognized and/or measured.

AG103. A first-time adopter shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognized (or for loan commitments and financial guarantee contracts the date that the entity became a party to the irrevocable commitment in accordance with paragraph 78 of IPSAS 41) and compare that to the credit risk at the date of adoption of IPSAS Standards (also see paragraphs AG350–AG351 of IPSAS 41).

AG104. When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:

(a) The requirements in paragraph 82 and AG179–AG182 of IPSAS 41; and

(b) The rebuttable presumption in paragraph 83 of IPSAS 41 for contractual payments that are more than 30 days past due if an entity applies the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

AG105. If, at the date of adoption of IPSAS Standards, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument requires undue cost or effort, an entity shall recognize a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized (unless that financial instrument has a low credit risk at a reporting date, in which case paragraph AG104(a) applies).

Embedded Derivatives

AG106. A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph AG109 of IPSAS 41.

Revenue and Transfer Expenses (refer to paragraph (e))

AG107. The following Standards are relevant:

(a) IPSAS 47, *Revenue*; and

(b) IPSAS 48, *Transfer Expenses*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (e))

IPSAS 47

AG108. A first-time adopter may take advantage of the transition period and may change its accounting policy in respect of the recognition and measurement of revenue from any date within the transition period. A first-time adopter applies the IPSAS Standards accounting policy and should recognize and measure revenue in accordance with paragraph AG20.

IPSAS 48

AG109. To the extent that a first-time adopter applies the exemptions which allow a transition period not to recognize and/or measure financial liabilities, it is not required to recognize and/or measure related expenses in accordance with IPSAS 48.

AG110. A first-time adopter may take advantage of the transition period and change its accounting policy in respect of the recognition and measurement of transfer expenses from any date within the transition period. A first-time adopter applies the IPSAS Standards accounting policy and should recognize and measure transfer expenses in accordance with paragraph AG20.

Other Expenses and Non-Financial Liabilities (refer to paragraphs (f) and (f))

AG111. The following Standards are relevant:

(a) IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*;

(b) IPSAS 32, *Service Concession Arrangements: Grantor*;

(c) IPSAS 39, *Employee Benefits*;

(d) IPSAS 42, *Social Benefits*; and

(e) IPSAS 43, *Leases*.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (f))

AG112. Where a first-time adopter has recognized the following non-financial liabilities under its previous basis of accounting, it may take advantage of the transition period and may change its accounting policy/policies in respect of the measurement of these non-financial liabilities to comply with the requirements of IPSAS Standards from any date within the transition period:

(a) Liabilities related to the service concession assets in AG56(e), either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);

(b) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);

(c) Social benefits (see IPSAS 42, *Social Benefits*); and

(d) Lease liabilities related to the right-of-use assets in (f) (see IPSAS 43, *Leases*).

AG113. Where a first-time adopter has not recognized the following non-financial liabilities under its previous basis of accounting, it may take advantage of the transition period and may recognize and/or measure them in accordance with the requirements of IPSAS Standards for reporting periods from any date within the transition period:

(a) Liabilities related to the service concession assets in (f), either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);

(b) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);

(c) Social benefits (see IPSAS 42, *Social Benefits*); and

(d) Lease liabilities related to the right-of-use assets in (g) (see IPSAS 43, *Leases*).

IPSAS 19

AG114. Where a first-time adopter elects to apply the exemption not to recognize and/or measure property, plant, and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for IPSAS 45 has expired, and/or the relevant asset is recognized and/or measured in accordance with IPSAS 45 (whichever is earlier).

AG115. Where a first-time adopter elects to apply the exemption in paragraph AG114, it shall recognize and/or measure the obligation and any related asset at the same time.

IPSAS 43

AG116. Where a first-time adopter elects to apply the exemption not to recognize assets it is not required to apply the requirements related to leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (f))

IPSAS 32

Initial Measurement of Related Liability

AG117. Where a first-time adopter elects to measure service concession assets using deemed cost, the related liabilities shall be measured as follows:

(a) For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in IPSAS 32; or

(b) For the liability under the grant of a right to the *operator* model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.

AG118. A first-time adopter shall recognize and/or measure any difference between the value of the service concession asset and the financial liability under the financial liability model in paragraph AG117 in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 39

AG119. A first-time adopter shall recognize and/or measure all employee benefits at the date of adoption of IPSAS Standards, except for defined benefit plans and other long-term employee benefits where it elects to apply the exemption not to recognize assets and/or liabilities.

Defined Benefit Plans and Other Long-Term Employee Benefits

AG120. On the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:

(a) The present value of the obligation at the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method; and

(b) Minus the fair value, at the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of plan assets (if any) out of which the obligations are to be settled directly.

AG121. If the initial liability in accordance with paragraph AG120 is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

AG122. The effect of the change in the accounting policy to IPSAS 39 includes any remeasurements that arose, if any, in earlier periods. Under its previous basis of accounting, a first-time adopter may not have recognized and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSAS Standards or where a first-time adopter elects to apply the exemption not to recognize and/or measure the relevant liabilities, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph AG120(b). This increased liability is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

AG123. A first-time adopter shall recognize all cumulative remeasurements in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 42

AG124. On the date of adoption of IPSAS Standards, or where a first-time adopter elects to apply the exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with IPSAS 42.

AG125. If the initial liability in accordance with paragraph AG124 is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

IPSAS 43

AG126. A first-time adopter that is a lessor shall at the date of adoption of IPSAS Standards, classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known at the date of adoption of IPSAS Standards. A first-time adopter may assess

whether a contract existing at the date of adoption of IPSAS Standards contains a lease by applying paragraphs 10–12 of IPSAS 43 to those contracts on the basis of facts and circumstances existing at that date.

AG127. When a first-time adopter that is a lessee recognizes lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph AG126):

(a) Measure a lease liability at the date of adoption of IPSAS Standards. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments (see paragraph AG130), discounted using the lessee's incremental borrowing rate (see paragraph AG130) at the date of adoption of IPSAS Standards.

(b) Measure a right-of-use asset at the date of adoption of IPSAS Standards. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) Its carrying amount as if IPSAS 43 had been applied since the commencement date of the lease (see paragraph AG130), but discounted using the lessee's incremental borrowing rate at the date of adoption of IPSAS Standards; or

(ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of adoption of IPSAS Standards; and

(c) Apply IPSAS 21 or IPSAS 26 to right-of-use assets at the date of adoption of IPSAS.

AG128. Notwithstanding the requirements in paragraph AG127, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of adoption of IPSAS Standards for leases that meet the definition of investment property in IPSAS 16 and are measured using the current value model in IPSAS 16 from the date of adoption of IPSAS Standards.

AG129. A first-time adopter that is a lessee may do one or more of the following at the date of adoption of IPSAS Standards, applied on a lease-by-lease basis:

(a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

(b) Elect not to apply the requirements in paragraph AG127 to leases for which the lease term (see paragraph AG130) ends within 12 months of the date of adoption of IPSAS Standards. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted for in accordance with paragraph 7 of IPSAS 43.

(c) Elect not to apply the requirements in paragraph AG127 to leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9 of IPSAS 43). Instead, the entity shall account for (including disclosure of information about) these leases in accordance with paragraph 7 of IPSAS 43.

(d) Exclude initial direct costs (see paragraph AG130) from the measurement of the right-of-use asset at the date of adoption of IPSAS Standards.

(e) Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

AG130. Lease payments, lessor, lessee, lessee's incremental borrowing rate, commencement date of the lease, initial direct costs and lease term are defined terms in IPSAS 43 and are used in this Standard with the same meaning.

Disclosure and Other Standards (refer to paragraphs (g) and (g))

AG131. To the extent that a first-time adopter elects to apply the exemptions not to recognize and/or measure items during the transition period, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1, IPSAS 18, *Segment Reporting*, and/or applicable IPSAS Standards until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognized and/or measured in accordance with applicable IPSAS Standards (whichever is earlier).

AG132. The following Standards are relevant:

(a) IPSAS 18, Segment Reporting; and

(b) IPSAS 20, Related Parties.

The following paragraphs provide more detail on any exemptions that may be applied relating to these Standards.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (g))

IPSAS 20

AG133. A first-time adopter may elect to disclose related party relationships, related party transactions and information about key management personnel from any date within the transition period.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period (refer to paragraph (g))

IPSAS 18

AG134. A first-time adopter may elect to present segment information from any date within the transition period.

Appendix B

Summary of Exemptions that Affect and Do Not Affect Fair Presentation and Compliance with IPSAS Standards

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
General			
• Change of accounting policies during transition period only to comply with IPSAS Standards		√	AG19
• If transition period relief for recognition and/or measurement of assets and liabilities is applied, associated presentation and disclosure requirements need not be applied during the time the transition period relief is applied	√		AG131
IPSAS 1			
• Presentation of comparative information	√		AG11-AG16
IPSAS 4			
• Cumulative transitional differences at the date of adoption	√		AG21, AG23
• Not required to apply Appendix A of IPSAS 4 to items initially recognized before the date of adoption of IPSAS Standards	√		AG22
IPSAS 5			
• Allowed alternative treatment and has taken advantage of transitional relief period		√	AG58
• Adopt allowed alternative treatment on date of adoption – retrospective application required	√		AG65

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
• Adopt benchmark treatment on the date of adoption –retrospective application encouraged, but not required, prospective application of costs incurred before and after date of adoption allowed	√		AG63-AG64
IPSAS 10			
• Determine if hyperinflationary economy is subject to severe hyperinflation at the date of adoption	√		AG26-AG28
• Measure assets and liabilities if date of adoption is on or after normalisation date	√		AG29
IPSAS 12			
• Transition period relief for recognition and/or measurement of assets and changing the accounting policy to measure assets		√	AG56(a), AG57(a)
• Gradual recognition and/or measurement of assets (and related financial or non-financial liabilities) during transition period		√	AG19-AG20
• Measure inventory using deemed cost	√		AG66, AG62
• Transition period relief for recognition of stripping activity assets		√	AG57(b), AG59
IPSAS 16			
• Transition period relief for recognition and/or measurement of assets and changing the accounting policy to measure assets		√	AG56(b), AG57(c)
• Gradual recognition and/or measurement of assets (and related financial or non-financial liabilities) during transition period		√	AG19-AG20
• Measure investment property deemed cost	√		AG67, AG62

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
IPSAS 18			
• No preparation of segment report within transition period	√		AG134
IPSAS 19			
• No recognition and measurement of liability relating to initial estimate of costs of dismantling and removing item if relief for recognition and/or measurement of assets during transition period is adopted		√	AG114-AG115
IPSAS 20			
• No disclosure of related party relationships, related party transactions and information about key management personnel required within transition period	√		AG133
IPSAS 21			
• Apply impairment provisions prospectively on date of adoption or when assets are recognised when relief period was applied	√		AG68
IPSAS 26			
• Apply impairment provisions prospectively on date of adoption or when assets are recognised when relief period was applied	√		AG68
IPSAS 27			
• Transition period for recognition and/or measurement of assets and changing the accounting policy to measure assets		√	AG56(c), AG57(d)

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
IPSAS 28			
• Determine if financial instrument has liability and net asset/equity component on date of adoption	√		AG85
• Do not separate compound financial instrument if no liability exists on date of adoption	√		AG85
IPSAS 30			
• No disclosure of information about nature and extent of risks for comparative period	√		AG86
IPSAS 31			
• Transition period relief for recognition and/or measurement of assets and changing the accounting policy to measure assets		√	AG56(d), AG57(e)
• Gradual recognition and/or measurement of assets (and related financial or non-financial liabilities) during transition period		√	AG19-AG20
• Measure intangible assets, other than internally generated intangible assets, using deemed cost	√		AG70
• Recognize all internally generated intangible assets	√		AG71
IPSAS 32			
• Transition period relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities		√	AG56(e), AG57(f)
• Gradual recognition and/or measurement of assets (and related financial or non-financial liabilities) during transition period		√	AG19-AG20

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
• Measure service concession assets using deemed cost	√		AG72
• Measure liability either under financial liability model or grant of a right to the operator model on date of adoption or when asset is recognised if relief period is adopted	√		AG112(a), AG113(a), AG117-AG118
IPSAS 34			
• Transition period relief to recognize and/or measure interests in controlled entity, associate or joint venture		√	AG38
• Measurement of assets and liabilities when controlled entity, associate or joint venture becomes first-time adopter later than its controlling entity	√		AG47
• Using deemed cost for investments in controlled entities, jointly ventures and associates	√		AG48-AG49
IPSAS 35			
• Elect to not eliminate inter-entity balances, transactions, revenue and expenses		√	AG39, AG40
• Not present financial statements as consolidated financial statements transition period relief for recognition and/or measurement and/or elimination option was adopted		√	AG41
• Assess if investment entity on date of adoption and determine fair value at that date	√		AG50
IPSAS 36			
• • Elect to not eliminate share in associate’s or joint venture’s surplus and deficit		√	AG42

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
• Not present investment in associates in consolidated financial statements if transition period relief for recognition and/or measurement and/or elimination option was adopted		√	AG43
IPSAS 37			
• Measure investment in joint venture previously accounted for using proportionate consolidation	√		AG52-AG54
IPSAS 39			
• Transition period relief for recognition and/or measurement of liabilities and changing the accounting policy to measure liabilities		√	AG112(b), AG113(b), AG119
• Determine initial liability for defined benefit and other long-term employee benefit plans on date of adoption or when relief period expired	√		AG120
• Recognize increase/decrease on date of adoption or when relief period expires in opening accumulated surplus/deficit	√		AG121-AG123
IPSAS 40			
• Transition period relief for recognition and/or measurement of assets and/or liabilities associated with a public sector combination during transition period		√	AG44-AG46
IPSAS 41			
• Transition period relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities		√	AG82-AG83
• Measure financial assets and/or financial liabilities using deemed cost	√		AG88

Transitional exemption or provision	***Does not affect fair presentation and compliance with IPSAS Standards***	***Affect fair presentation and compliance with IPSAS Standards***	***Paragraph Reference***
Designation			
• Designate financial asset or liability at fair value through surplus or deficit on date of adoption	√		AG89-AG90
• Designate investment in an equity instrument at fair value through net assets/equity on date of adoption	√		AG91
Impairment			
• Apply impairment provisions prospectively on date of adoption	√		AG101
Hedge accounting			
• Measure derivatives at fair value	√		AG94(a)
• Eliminate all deferred losses and gains	√		AG94(b)
• Only reflect hedges that qualify for hedge accounting on date of adoption	√		AG95
• Discontinue hedge transaction if conditions of hedge accounting on date of adoption are not met	√		AG96
Derecognition			
• Apply derecognition provisions prospectively on date of adoption	√		AG92
• Apply derecognition provisions retrospectively if information is available as at the date of initial accounting	√		AG93
Classification and Measurement			
• Impracticable to assess/apply certain elements of IPSAS 41 to financial assets/ financial liabilities	√		AG97-AG100
Embedded Derivatives			

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
• Assessment of embedded derivatives	√		AG106
IPSAS 42			
• Transition period relief for recognition and/or measurement of liabilities and changing the accounting policy to measure liabilities		√	AG112(c), AG113(c)
• Recognize increase/decrease on date of adoption or when relief period expires in opening accumulated surplus/deficit	√		AG125
IPSAS 43			
• Where a first-time adopter is a lessee no recognition and/or measurement of lease liability and right-of-use asset if relief period for recognition and/or measurement of assets is adopted during transition period		√	AG56(f), AG57(g), AG112(d), AG113(d), AG116
• Gradual recognition and/or measurement of right-of-use assets (and related financial or non-financial liabilities) during transition period		√	AG19-AG20
• Measure right-of-use assets using deemed cost	√		AG73
• Identification of a lease based on circum-stances at adoption of accrual basis IPSAS Standards	√		AG126
• Simplifications to measurement of leases	√		AG127, AG129
IPSAS 45			
• Transition period for recognition and/or measurement of assets and changing the accounting policy to measure assets		√	AG56(g), AG57(h)

Transitional exemption or provision	*Does not affect fair presentation and compliance with IPSAS Standards*	*Affect fair presentation and compliance with IPSAS Standards*	*Paragraph Reference*
• Gradual recognition and/or measurement of assets (and related financial or non-financial liabilities) during transition period		√	AG19-AG20
• Measure property, plant and equipment using deemed cost	√		AG74-AG76, AG62
IPSAS 46			
• Use of deemed cost to measure assets acquired through non-exchange transaction	√		AG33
IPSAS 47			
• Relief to not change accounting policy for recognition and/or measurement of revenue during transition period		√	AG108
• When transition period exemption for recognition and/or measurement of financial assets is applied, any related revenue is not required to be recognized and/or measured		√	AG84
IPSAS 48			
• Relief to not change accounting policy for recognition and/or measurement of transfer expenses during transition period		√	AG110
• When transition period exemption for recognition and/or measurement of financial liabilities is applied, any related expenses are not required to be recognized and/or measured		√	AG109
IPSAS 50			
• Transition period relief for recognition of exploration and evaluation assets		√	AG57(i)(i), AG60

Appendix C

Amendments to Other IPSAS Standards

Amendments to Other IPSAS Standards which result from an entity adopting IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* do not affect the current requirements in other IPSAS Standards.

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 154 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

154. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 2, *Cash Flow Statements*

Paragraph 64 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

64. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 60 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

60. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 4, *The Effect of Changes in Foreign Exchange Rates*

Paragraph 72 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

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72. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 5, *Borrowing Costs*

Paragraph 43 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

43. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 9, *Revenue from Exchange Transactions*

Paragraph 42 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

42. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

Paragraph 39 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

39. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 11, *Construction Contracts*

Paragraph 58 is amended. New text is underlined, and deleted text is struck through.

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Effective Date

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58. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 12, *Inventories*

Paragraph 52 is amended. New text is underlined, and deleted text is struck through.

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Effective Date

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52. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 14, *Events After the Reporting Date*

Paragraph 33 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

33. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 102 and BC10 are amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

102. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Basis for Conclusions

…

BC10. Paragraph 97 includes transitional provisions for those entities that elect, for the first time, to classify and account for some or all eligible property interests held under operating leases as investment property. These provisions have been restated following the deletion of other transitional provisions (to which paragraph 97 previously referred) as a result of the issuance of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) (2015)*.~~"~~

…

Amendments to IPSAS 18, *Segment Reporting*

Paragraph 77 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

77. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*

Paragraph 112 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

112. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 20, *Related Party Disclosures*

Paragraph 43 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

43. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraph 83 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

83. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 22, *Disclosure of Financial Information About the General Government Sector*

Paragraph 48 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

48. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraph 125 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

125. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 24, *Presentation of Budget Information in Financial Statements*

Paragraph 55 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

55. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraph 127 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

127. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 27, *Agriculture*

Paragraph 57 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

57. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Basis for Conclusions

…

BC14. IAS 41 does not contain transitional provisions for first-time adoption of the accrual basis of accounting. When issued, this Standard contained such provisions to assist entities in applying this Standard when first adopting the accrual basis of accounting. These provisions have since been replaced by the guidance in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*.

…

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraph 61 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

61. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 29, *Financial Instruments: Recognition and Measurement*

Paragraph 126 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

126. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 53 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

53. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting

purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraph 133 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

133. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 32, *Service Concession Arrangements: Grantor*

Paragraph 37 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

37. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 34, *Separate Financial Statements*

Paragraph 33 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

33. When an entity adopts ~~the~~ accrual basis IPSAS as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 35, *Consolidated Financial Statements*

Paragraph 80 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

80. When an entity adopts ~~the~~ accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraph 52 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

52. When an entity adopts ~~the~~ accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 37, *Joint Arrangements*

Paragraph 43 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

43. When an entity adopts ~~the~~ accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 38, *Disclosure of Interests in Other Entities*

Paragraph 62 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

62. When an entity adopts ~~the~~ accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 39, *Employee Benefits*

Paragraph 177 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

177. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraphs 126C, BC84, and BC94 are amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

126C. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Basis for Conclusions

…

Combining Operations that Have Not Previously Adopted Accrual Basis IPSAS Standards

…

BC84. The IPSASB came to the view that where adjusting the carrying amounts to conform to the resulting entity's accounting policies was insufficient to achieve compliance with accrual basis IPSAS Standards, the resulting entity would be a first-time adopter of accrual basis IPSAS Standards. This could occur where one or more combining operations had previously adopted the cash basis of accounting and had, therefore, not previously recognized certain assets and liabilities. In these circumstances, the resulting entity would apply IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* in preparing its first post-combination financial statements.

…

BC94 The paragraph related to IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (2015) was inadvertently omitted when IPSAS 40 was issued. The IPSASB added paragraph 126C to ensure consistency with IPSAS 33.

…

Amendments to IPSAS 41, *Financial Instruments*

Paragraph 157 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

157. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 42, *Social Benefits*

Paragraph 36 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

36. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 43, *Leases*

Paragraph 104 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

104. When an entity adopts ~~the~~ accrual basis IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 44, Non-Current Assets Held for Sale and Discontinued Operation

Paragraph 59 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

59. When an entity adopts ~~the~~ accrual basis ~~of~~ IPSAS ~~of accounting~~ Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraphs 86 and BC22 are amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

86. When an entity adopts ~~the~~ accrual basis IPSAS Standards ~~of accounting~~ as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Basis for Conclusions

…

Recognition

Deemed Cost of Non-Exchange Transactions

…

BC22. A response to ED 78 suggested a definition of deemed cost be included in IPSAS 45. The IPSASB discussed that deemed cost for assets acquired in a non-exchange transaction is fair value, in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*. The IPSASB noted that ED 78's proposal added unintended complexity as it now required an entity to review IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* to understand which measurement basis to apply for deemed cost of a non-exchange transaction at recognition. However, the proposal was not intended to change the initial measurement of Plant, Property, and Equipment acquired in a non-exchange transaction.

…

Amendments to IPSAS 46, *Measurement*

Paragraphs 7, 57, and BC21 are amended. New text is underlined, and deleted text is struck through.

…

Initial Measurement

…

7. …

When applying accrual basis IPSAS Standards for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS Standards should be carried out in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*.

…

Effective Date

…

57. When an entity adopts ~~the~~ accrual basis IPSAS Standards ~~of accounting~~ as defined in IPSAS 33 for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of accrual basis IPSAS Standards.

…

Basis for Conclusions

…

Initial Measurement (paragraphs 7-16)

…

BC21. With the development of current operational value for assets held for operational capacity, the IPSASB decided deemed cost should be an amount used as a surrogate for transaction price. The definition of deemed cost in IPSAS 33, *First-Time Adoption of Accruals Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, was replaced to reflect the IPSASB's decision and allows for initial measurement of property, plant, and equipment transactions where the transaction price does not faithfully present relevant information to be measured at current operational value, in addition to fair value.

…

Amendments to IPSAS 47, *Revenue*

Paragraph 195 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

195. When an entity adopts ~~the~~ accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 48, *Transfer Expenses*

Paragraph 63 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

63. When an entity adopts ~~the~~ accrual basis IPSAS Standards ~~of accounting~~ as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 49, *Retirement Benefit Plans*

Paragraph 26 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

26. When a retirement benefit plan adopts ~~the~~ accrual basis IPSAS Standards ~~of accounting~~ as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards ~~(IPSAS)~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the retirement benefit plan's financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Amendments to IPSAS 50, *Exploration and Evaluation of Mineral Resources*

Paragraph 28 is amended. New text is underlined, and deleted text is struck through.

…

Effective Date

…

28. When an entity adopts ~~the~~ accrual basis IPSAS Standards ~~of accounting,~~ as defined in IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards* ~~(IPSASs)~~, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

Background

BC1. Prior to the development of IPSAS 33, there was no Standard that addresses issues arising from the first-time adoption of IPSAS Standards. As a result, the IPSASB approved a project in June 2011 to develop a comprehensive set of principles to be used by entities on the adoption of accrual basis International Public Sector Accounting Standards (IPSAS Standards). This project resulted in the developed of IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*, published in 2015.

BC2. In 2023, the IPSASB initiated a limited scope project to address stakeholder concerns with the application of IPSAS 33, by re-organizing and clarifying the guidance to make the Standard more useful and effective. See paragraphs BC129-BC137.

BC3. While this Standard has Implementation Guidance, it is not within the scope of this project to develop more detailed practical guidance on the first-time adoption of accrual basis IPSAS Standards. The IPSASB is of the view that because specific issues relating to first-time adoption are likely to vary from one jurisdiction to the next, and because the starting point for first-time adopters varies depending on their previous basis of accounting, individual jurisdictions need to play a role in the development of additional Implementation Guidance to assist first-time adopters in their transition to accrual basis IPSAS Standards.

BC4. This Standard addresses the transition from either a cash basis, or an accrual basis under another reporting framework, or a modified version of either the cash or accrual basis of accounting. Consequently, the IPSASB agreed that the project was not an IFRS convergence project.

BC5. The IPSASB did, however, consider the transitional exemptions included in IFRS 1, *First-time Adoption of International Financial Reporting Standards,* as well as the transitional provisions included in the existing suite of IPSAS Standards, in developing this Standard.

BC6. In developing this Standard, the IPSASB agreed that, because this Standard is not a convergence project, all the transitional provisions and exemptions should be included in a single pronouncement.

BC7. The transitional exemptions provided in this Standard replaced many of the transitional provisions in IPSAS Standards when IPSAS 33 was first issued.

BC8. When the IPSASB issues new pronouncements, it will consider specific transitional provisions to be included in this Standard that will provide relief for a first-time adopter. Transitional provisions for entities already applying accrual basis IPSAS Standards will be included in the new pronouncements that are developed.

Objective

BC9. The IPSASB noted that the intention of IPSAS 33 is to act as a transition Standard to assist the first-time adopter to apply accrual basis IPSAS Standards by allowing certain exemptions from recognition, measurement, presentation, and disclosure requirements in other IPSAS Standards. The first-time adopter is, therefore, not adopting IPSAS 33, but IPSAS Standards.

Scope

BC10. This Standard applies when an entity adopts accrual basis IPSAS Standards for the first time to the extent that it has adopted one or more of the transitional exemptions and provisions in this Standard. This Standard provides relief to a first-time adopter in presenting its transitional/first IPSAS financial statements, and allows a first-time adopter certain voluntary exemptions during the transition period.

BC11. This Standard requires an entity to comply with each effective IPSAS Standard at the date of adoption, but grants limited exemptions from requirements in certain areas where the benefits to users of financial statements are less than the cost of complying with those requirements. Retrospective application of some IPSAS Standards is prohibited, particularly where they require judgment by management about past conditions.

BC12. The exemptions provided in this Standard may override some of the requirements in existing accrual basis IPSAS Standards during the transition to accrual basis IPSAS Standards.

BC13. The date of adoption of accrual basis IPSAS Standards is the start of the reporting period in which the first-time adopter elects to adopt accrual basis IPSAS Standards. If, on the date of adoption of accrual basis IPSAS Standards the first-time adopter elects to apply one or more of the voluntary exemptions or provisions that affect fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS Standards, the first-time adopter will present transitional IPSAS financial statements during the transition period. At the end of the transition period the first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS Standards in order to assert compliance with accrual basis IPSAS Standards as required in IPSAS 1, *Presentation of Financial Statements,* even though the date of adoption of accrual basis IPSAS Standards may have been at an earlier point.

BC14. If, however, on the date of adoption of accrual basis IPSAS Standards the first-time adopter does not elect to apply one or more of the exemptions or provisions that affect fair presentation and compliance with accrual basis IPSAS Standards, the first-time adopter can present "IPSAS financial statements" during the transition period. IPSAS financial statements are financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis IPSAS Standards. If a first-time adopter does not adopt the exemptions in this Standard that affect fair presentation and compliance with accrual basis IPSAS Standards, its first financial statements following the date of adoption of accrual basis IPSAS Standards may also be its first IPSAS financial statements.

Definitions

BC15. The definition of "deemed cost" is provided in IPSAS 46, *Measurement*. IPSAS 46 deleted the definition of "deemed cost" from IPSAS 33 (2015). However, due to the particular importance of deemed cost in the application of the exemptions in IPSAS 33, the IPSASB decided to include the definition of "deemed cost" in IPSAS 33 (2025) by explaining it is as defined in IPSAS 46.

Recognition and Measurement

BC16. When IPSAS 33 was developed, the IPSASB decided to provide transitional exemptions pertaining to recognition and measurement principles in other IPSAS Standards rather than a separate set of requirements for recognition and measurement in IPSAS 33. First-time adopters should refer to the respective IPSAS Standards' requirements for recognition and measurement; read in conjunction with the available transitional exemptions in IPSAS 33.

BC17. In developing ED 91, the IPSASB sought to clarify the application of the transitional exemptions pertaining to the recognition and measurement principles in other IPSAS Standards. Implementation Guidance was developed illustrating how to interpret guidance in paragraph AG19 requiring a first-time adopter to only change its accounting policies during the transition period to conform to the accounting policies in accrual basis IPSAS Standards. This new Implementation Guidance illustrated the recognition and measurement of an asset and/or liability only when all information for the entire category was available.

BC18. Some respondents noted adding Implementation Guidance C.2, which illustrates the application of paragraph AG19, prohibits one interpretation of how jurisdictions applied IPSAS 33 (2015) in practice. These respondents:

(a) Indicated paragraph C.2 makes the application of IPSAS 33 more restrictive and more challenging to apply;

(b) Noted the objective of the project was to make IPSAS 33 more user-friendly and effective, not change any of the existing exemptions or requirements; and

(c) Recommended the IPSASB clarify C.2 is one interpretation of paragraph AG19, previously paragraph 40 in IPSAS 33 (2015), and the alternative interpretation is valid.

BC19. The IPSASB agreed IPSAS 33 (2015) was not explicit whether recognition and measurement on a gradual basis is permitted or prohibited. As demonstrated by practical implementation experiences, jurisdictions had interpreted the requirements differently—some had considered recognition and measurement on a gradual basis to be permissible, while others have taken a stricter view. These differences reflect jurisdiction-specific considerations and what is deemed appropriate in each context. Given that the intent of the standard is to ease the transition process, the IPSASB was concerned with rigid language prohibiting previously accepted practices—particularly those that have proven effective and appropriate in several jurisdictions. The IPSASB agreed jurisdictions applying the standard should focus on adopting an approach that best serves the objectives of their transition and reflects their specific institutional capacities. The IPSASB acknowledged that financial statements prepared during the transition period may not fairly present the financial position and performance, and recognition and measurement of assets and/or liabilities on gradual recognition during the transition period is a practical interpretation of the exemptions available to first-time adopters.

Developing Criteria to Develop and Assess Transitional Exemptions

BC20. In developing the transitional exemptions in this Standard, the IPSASB developed a set of criteria based on what user information needs are likely to be on the adoption of and transition to accrual basis IPSAS Standards as set out in Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)*. These criteria were used to evaluate these transitional provisions, along with an assessment of the qualitative characteristics, and constraints on, information included in general purpose financial reports (GPFRs) as outlined in Chapter 3 of the *Conceptual Framework*. The results of these evaluations are included in paragraphs BC21-BC26.

BC21. In developing requirements for the first-time adopter's opening statement of financial position and in considering the transitional exemptions, the IPSASB referred to the objective of financial statements, as set out in Chapter 2 of the *Conceptual Framework.*

BC22. Chapter 2 of the *Conceptual Framework* states that the objective of GPFRs, which encompass financial statements including their notes, is to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes. Information about financial position, financial performance and cash flows are typically presented in financial statements.

BC23. Chapter 3 of the *Conceptual Framework* also identifies qualitative characteristics of information included in the GPFRs of public sector entities. These qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information included in GPFRs are materiality and cost-benefit.

Criteria Used to Develop the Transitional Exemptions

Fair Presentation and Compliance with IPSAS Standards

BC24. IPSAS 1 requires that an entity whose financial statements comply with IPSAS Standards shall make an explicit and unreserved statement of such compliance in the notes to the financial statements. Financial statements shall not be described as complying with IPSAS Standards unless they comply with all the requirements of IPSAS Standards. Due to the complexity of issues relating to the first-time adoption of accrual basis IPSAS Standards, the IPSASB agreed that relief should be provided in certain instances. The IPSASB also agreed that some relief would affect the fair presentation of a first-time adopter's financial statements and the ability to assert compliance with accrual basis IPSAS Standards.

BC25. The IPSASB agreed that there should be a differentiation between those transitional exemptions which do not affect fair presentation of a first-time adopter's financial statements and those that do. The IPSASB also agreed that structuring the Standard in this way will give preparers a better understanding of the effect that the various transitional provisions and exemptions will have on their financial statements during the period of transition. Following the differentiation, the IPSASB agreed that first-time adopters should be alerted to the fact that they will not be able to assert compliance with accrual basis IPSAS Standards as required by IPSAS 1 if they adopt certain exemptions provided in this Standard.

BC26. The IPSASB agreed that where a first-time adopter takes advantage of the exemptions that affect fair presentation and compliance with accrual basis IPSAS Standards, it will not be able to make an unreserved statement of compliance with accrual basis IPSAS Standards until such time as the exemptions that provided the relief have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS Standard (whichever is earlier).

BC27. Following comments received on the proposed IPSAS Standard on *First-time Adoption of Accrual Basis IPSAS (2015)*, the IPSASB agreed to clarify that a first-time adopter should apply judgment in assessing to what extent the transitional exemptions and provisions adopted affect fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSAS Standards. Where a first-time adopter elects to apply one or more of the transitional exemptions and provisions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS Standards, the first-time adopter may still conclude that fair presentation is achieved because the recognition and/or measurement of the item, transaction or event that is exempted is not significant in relation to the financial statements as a whole. Applying judgment to assess the significance of the transitional exemption and provision adopted in relation to the financial statements as a whole needs to be based on the first-time adopter's specific circumstances.

BC28. The IPSASB agreed that the financial statements presented at the end of the first reporting period where a first-time adopter takes advantage of one of more of the transitional exemptions that affect fair presentation and compliance with accrual basis IPSAS Standards, should be referred to as the transitional IPSAS financial statements. This is because the first-time adopter will not be able to make an explicit and unreserved statement of compliance with IPSAS Standards while applying the exemptions in this Standard that affect the fair presentation of the financial statements and a first-time adopter's ability to assert compliance with accrual basis IPSAS Standards.

BC29. To provide relevant information during the transition to accrual basis IPSAS Standards, disclosures to inform users about the transitional exemptions adopted by a first-time adopter, and how it transitions from its previous basis of accounting to accrual basis IPSAS Standards, are required.

BC30. The IPSASB noted that, as part of a first-time adopter's transition to accrual accounting, an implementation plan should be developed so as to assess the first-time adopter's progress reporting under accrual basis

IPSAS Standards. Disclosures on the progress towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue and/or expenses in accordance with this plan will provide useful information to the users of financial statements in understanding how and by when the first-time adopter intends to comply in full with the requirements of all the applicable IPSAS Standards.

Financial Statements

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

Presenting Comparative Information Following the Adoption of Accrual Basis IPSAS Standards

BC31. In developing IPSAS 33 (2015), the IPSASB considered whether comparative information should be required on the adoption of accrual basis IPSAS Standards, as the transitional provisions in IPSAS 1 at that time did not require comparative information with respect to the financial statements in which accrual accounting is first adopted in accordance with IPSAS Standards.

BC32. In considering the cost-benefit criterion, the IPSASB confirmed that the approach in IPSAS 1 at that time for the presentation of comparative information should be retained to promote the adoption of accrual basis IPSAS Standards. This Standard therefore only encourages the provision of comparative information, with no requirement that a first-time adopter should provide comparative information in its first transitional IPSAS financial statements, or first IPSAS financial statements.

BC33. Where a first-time adopter elects not to present comparative information, the IPSASB agreed that, as a minimum, a first-time adopter's first transitional IPSAS financial statements should include one statement of financial position and an opening statement of financial position at the date of adoption of accrual basis IPSAS Standards.

BC34. Where a first-time adopter elects to present comparative information, the IPSASB agreed that a first-time adopter should present one statement of financial position with comparative information for the preceding period and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSAS Standards.

BC35. As the adoption of the transition period also affects the presentation of comparative information, the IPSASB agreed that, where the first-time adopter took advantage of the transition periods, it should only adjust comparative information for the year following the date of adoption of accrual basis IPSAS Standards when information was available about the items that had been recognized and/or measured during that period. Comparative information will thus only be adjusted retrospectively to the extent that the information is available.

BC36. A first-time adopter shall apply the requirements in IPSAS 1 relating to the disclosure of comparative information after it has presented its first IPSAS financial statements.

Presenting a Comparison of Budget and Actual Information in a First-time Adopter's Financial Statements

BC37. The IPSASB debated whether a first-time adopter should be required to present a comparison of budget and actual information following the adoption of accrual basis IPSAS Standards, and whether such information is useful to the users of the financial statements.

BC38. The IPSASB considered that, if a first-time adopter prepares its budget on the cash-basis of accounting after the adoption of accrual basis IPSAS Standards, presenting this comparison in its transitional IPSAS financial statements, or its first IPSAS financial statements, could be onerous. The IPSASB, however, agreed that such a comparison should be included in a first-time adopter's financial statements, as the comparison is a unique feature of IPSAS Standards and promotes accountability and decision-making.

Presenting a Cash Flow Statement in a First-time Adopter's Financial Statements

BC39. During the comment period on ED 53, *First-Time Adoption of Accrual basis International Public Sector Accounting Standards (IPSAS)*, respondents requested the IPSASB to consider providing transitional exemptions and provisions for the preparation of the cash flow statement where a first-time adopter elects to adopt a transition period for the recognition and/or measurement of certain assets and/or liabilities. Respondents noted that it did not seem to be appropriate to present a cash flow statement when the statement of financial position was incomplete.

BC40. The IPSASB confirmed its previous decision not to provide any transitional relief as, during the transition period, users still need cash flow information on:

(a) the sources of cash inflows;

(b) the items on which cash was expensed during the reporting period; and

(c) the cash balance as at the end of the reporting period.

General Principles

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

Deemed Cost

Deemed Cost for Assets and/or Liabilities

BC41. Some measurements in accordance with IPSAS Standards are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly and/or impractical. To avoid excessive cost, this Standard allows a first-time adopter to use the current operational value or fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the historical cost model in investment property, property, plant, and equipment, financial instruments and service concession assets at the date of adoption of IPSAS Standards. Where a first-time adopter takes advantage of the exemption that provides a transition period not to recognize and/or measure certain assets, the current operational value or fair value is the deemed cost at the date on which the asset is recognized and/or measured during the transition period.

BC42. While it could be argued that the use of current operational value or fair value would lead to a lack of comparability, the IPSASB noted that cost is generally equivalent to current operational value or fair value at the date of acquisition. Therefore, the use of current operational value or fair value as the deemed cost of an asset means that a first-time adopter reports the same cost data as if it has acquired an asset with the same value or same remaining service potential at the date of adoption of IPSAS Standards. If there is any lack of comparability, it arises from the aggregation of costs incurred at different dates, rather than from the use of current operational value or fair value as deemed cost for some assets at a date. In the view of the IPSASB, using deemed cost facilitates the introduction of IPSAS Standards in a cost-effective way.

BC43. When this Standard was first issued, if an entity revalued an asset under the revaluation model in IPSAS 17, it had to revalue all assets in that class. This restriction prevented selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, *Impairment of Non-cash-generating Assets* and IPSAS 26, *Impairment of Cash-generating Assets* required an impairment test if there was any indication that an asset was impaired. Thus, if a first-time adopter used current operational value or fair value as deemed cost for assets whose current operational value or fair value was likely to be above cost, it could not ignore

indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable when current operational value or fair value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45.

BC44. The IPSASB also considered the circumstances under which a first-time adopter should be allowed to determine a deemed cost on initial adoption of accrual basis IPSAS Standards, or where a first-time adopter takes advantage of the exemption that provides a transition period not to recognize and/or measure certain assets. The IPSASB considered whether the use of a deemed cost should be restricted to those situations where cost information is not available for assets, or whether it should be allowed in all circumstances, irrespective of whether cost information is available at the date of adoption of IPSAS Standards, or the date on which the asset is recognized and/or measured where a first-time adopter has taken advantage of the exemption that provides a transition period not to recognize and/or measure certain assets.

BC45. The IPSASB agreed that, to avoid the selective valuation of assets, the use of a deemed cost should be restricted to those circumstances where reliable information about the historical cost of the asset is not available.

BC46. As part of the development of IPSAS 46, additional guidance on deemed cost was developed. This guidance was developed to clarify the application of deemed cost in practice. Measurement guidance in IPSAS 46 is generic in nature, and was developed to supplement specific guidance in specific IPSAS Standards. The deemed cost guidance in IPSAS 46 was developed to be consistent with the existing guidance in IPSAS 33 (2015) (which is replicated in this Standard). However, where specific deemed cost guidance in this Standard exists, it takes precedence over the generic guidance in IPSAS 46.

Deemed Cost for Investments in Controlled Entities, Joint Ventures or Associates

BC47. The IPSASB also agreed that a first-time adopter may elect to measure an investment in a controlled entity, joint venture or associate at cost in its separate financial statements at the date of adoption of IPSAS Standards at either cost as determined in accordance with IPSAS 34, or deemed cost. Deemed cost is determined as fair value in accordance with IPSAS 41, *Financial Instruments*.

Deemed Cost for Intangible Assets

BC48. In considering whether a first-time adopter should be allowed to determine a deemed cost for intangible assets, the IPSASB considered the transitional provisions in IPSAS 31 at the time IPSAS 33 (2015) was being developed. IPSAS 31 allowed a first-time adopter to use a previous revaluation of intangible assets at, or before, the date of transition as deemed cost at the date of the revaluation if the revaluation is broadly comparable to fair value or cost or depreciated cost that is adjusted to reflect, for example, changes in a general or specific price index. IPSAS 31, however, only allows a first-time adopter to determine a deemed cost if the recognition criteria in IPSAS 31 (including the reliable measurement of original cost), and the criteria for revaluation (including the existence of an active market), have been met.

BC49. The IPSASB debated whether public sector entities will be likely to fulfil the second criterion on initial adoption of accrual basis IPSAS Standards, i.e., the existence of an active market. The IPSASB acknowledged that it may be uncommon for an active market to exist in the public sector for intangible assets, and as a consequence, the use of the deemed cost approach will likely be considerably restricted. As a result, a first-time adopter may be unable to determine a deemed cost for some intangible assets such as in-house developed IT systems.

BC50. The IPSASB considered whether the reliable measurement of original cost should be required for first-time adopters which previously applied a cash basis of accounting, as some entities might find it cumbersome to

identify the original cost of their intangible assets. It was also argued that, where a first-time adopter has previously applied the accrual basis of accounting and it has acquired intangible assets through a non-exchange transaction, it might not be able to reliably measure original cost.

BC51. Based on these considerations, the IPSASB concluded that the reliable measurement of the original cost should be excluded as a criterion for the application of the deemed cost approach on first-time adoption of accrual basis IPSAS Standards.

BC52. The IPSASB therefore agreed that a first-time adopter is allowed to determine a deemed cost for intangible assets where that deemed cost meets:

(a) the recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and

(b) the criteria in IPSAS 31 for revaluation (including the existence of an active market).

BC53. In considering whether a first-time adopter should be allowed to determine a deemed cost for internally generated intangible assets, the IPSASB concluded that it would be difficult to retrospectively assess the probability of expected future economic benefits or service potential through reasonable and supportable assumptions as management would not be able to apply hindsight in obtaining such information. Due to the absence of reliable information at the date of adoption of accrual basis IPSAS Standards, it was therefore agreed that a deemed cost may not be determined for internally generated intangible assets.

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC54. When IPSAS 33 (2015) was issued, the IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost if previous revaluations already complied with IPSAS Standards. IPSAS 33 (2015) therefore allowed a first-time adopter to use a revaluation under its previous basis of accounting for property, plant, and equipment determined at or before the date of adoption of IPSAS Standards as deemed cost. This was allowed to be used if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost, where appropriate, in accordance with IPSAS Standards adjusted to reflect, for example, changes in a general or specific price index.

BC55. In determining "fair value", when IPSAS 33 was developed, the guidance in each applicable IPSAS Standard was considered, where such guidance was provided. In IPSAS 17 it was noted that fair value was normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also stated that if market-based evidence was not available to measure items of property, plant, and equipment, an entity could estimate fair value using replacement cost, reproduction cost or a service units approach. In developing IPSAS 45, the IPSASB noted that these principles have been moved to IPSAS 46. In reaching this conclusion, the IPSASB noted that IPSAS 45 refers to historical cost rather than cost and uses current operational value rather than fair value.

BC56. The IPSASB noted that the fair value guidance in IPSAS 16 only considered a market-based value, and that limited guidance was provided in IPSAS 12 in determining fair value. The IPSASB concluded that because, a first-time adopter may find it difficult to determine a market-based fair value for all investment properties and all inventories, other measurement alternatives may need to be considered in determining deemed cost for inventory or investment property.

BC57. The IPSASB has since issued IPSAS 46, which provides a consistent approach to measuring fair value in all IPSAS Standards. The IPSASB noted that the guidance in that Standard includes a fair value hierarchy, which guides entities on measurement techniques that may be used where there is no observable market

data. The IPSASB considered whether the continued use of measurement alternatives was appropriate, and noted that the alternatives included in IPSAS 33 are consistent with measurement techniques available in IPSAS 46 to estimate fair value. The IPSASB agreed to modify the wording of IPSAS 33 (2015) accordingly, and that wording is repeated in this Standard.

BC58. The IPSASB agreed that a first-time adopter may consider the following measurement techniques in determining a deemed cost if observable inputs of fair value are not available at the date of adoption of IPSAS Standards, or on the date that the asset is recognized and/or measured where a first-time adopter takes advantage of the exemption that provides a transition period not to recognize and/or measure certain assets:

(a) For inventory, current operational value; and

(b) For investment property of a specialized nature, depreciated replacement cost.

BC59. The IPSASB concluded that, to the extent that a first-time adopter has elected to adopt one or more of the transitional exemptions that provides relief for the recognition and/or measurement of assets, it may not be able to retrospectively adjust the value of the asset to the date of adoption of accrual basis IPSAS Standards. Retrospectively adjusting the value of the asset would require consideration of the price of the asset and other market factors that existed at the date of adoption of accrual basis IPSAS Standards, including whether there was any indication that the asset was impaired.

BC60. The IPSASB concluded that this would not be cost effective. It was therefore agreed that, where a first-time adopter takes advantage of the exemption which allows a transition period not to recognize and/or measure an asset, it may determine a deemed cost for that asset at any point of time within the transition period. Any adjustments resulting from the recognition of the asset are recognized against the opening accumulated surplus or deficit in the year in which the asset is recognized and/or measured.

Accounting Boundaries

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

BC61. The IPSASB considered whether it should provide a transition period that allows a first-time adopter not to present consolidated financial statements on the adoption of accrual basis IPSAS Standards. In considering this proposal, it was argued that providing such an exemption would contradict the concept of a reporting entity and would not result in fair presentation.

BC62. The IPSASB therefore agreed that providing a transition period not to present consolidated financial statements should not be provided. Rather, a first-time adopter should be given a transition period of a maximum of three years from eliminating balances, transactions, revenues and expenses between entities within the economic entity.

BC63. As some balances, transactions, revenues and expenses may be known on adoption of accrual basis IPSAS Standards, a first-time adopter is encouraged to eliminate only those known balances, transactions, revenues and expenses.

BC64. For the same reason, the IPSASB agreed that a similar exemption should also be provided where a first-time adopter has one or more associates in terms of IPSAS 36.

Providing a relief for the initial recognition and/or measurement of interests in other entities

BC65. Following comments received on Exposure Draft 53, the IPSASB agreed that relief should be provided to a first-time adopter for the initial recognition and/or measurement of its interests in other entities. This relief

would allow those first-time adopters that have not gathered the necessary information at the date of adoption of IPSAS Standards more time to appropriately classify and measure their interests in other entities. The relief provided is consistent with that provided for financial instruments.

Presenting consolidated financial statements where the transition period is adopted for the initial recognition and/or measurement of interests in other entities and/or to not eliminate inter-entity balances, transactions, revenue and expenses

BC66. Some respondents to the Exposure Draft 53 expressed a view that relief should be provided from preparing consolidated financial statements where a first-time adopter has elected to not eliminate some, or all of the inter-entity balances, transactions, revenues and expenses between entities within the economic entity. The IPSASB concluded that the financial statements that are presented where a first-time adopter has taken advantage of the transition period for the initial recognition and/or measurement of interests in other entities, and/or where it has elected to not eliminate some, or all inter-entity balances, transactions, revenues and expenses, cannot be presented as consolidated financial statements, until (a) the exemptions that provided the relief have expired, and/or (b) inter-entity balances, transactions, revenue and expenses have been eliminated, and/or (c) its interests in other entities have been recognized and/or measured appropriately. The IPSASB agreed that disclosure requirements should be added to explain to users why the financial statements are not presented as consolidated financial statements.

BC67. The IPSASB agreed that providing this clarification is necessary because, where a first-time adopter has not eliminated inter-entity balances, transactions, revenues and expenses as required by IPSAS 35, preparing consolidated financial statements will merely be an aggregation of inter-entity balances, transactions, revenues and expenses within the economic entity. Such statements would not be useful for accountability and decision-making purposes.

BC68. Likewise eliminating the carrying amount of an investment in the controlled entity as required by IPSAS 35 may not be possible if the first-time adopter has not recognized and/or measured its interest in other entities as required by the applicable IPSAS Standards.

IPSAS 40, Public Sector Combinations

BC69. In developing IPSAS 40, *Public Sector Combinations*, the IPSASB considered whether it should provide a transition period that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination. The IPSASB noted that IPSAS 40 is applied prospectively, and so its application would not require a first-time adopter to adjust their accounting for a public sector combination that occurred prior to the application of that Standard. However, a public sector combination could occur during a first-time adopter's transition period. The IPSASB considered that requiring a first-time adopter to recognize and measure all the assets and liabilities associated with a public sector combination without requiring them to recognize and measure all similar assets and liabilities would not provide useful information for the users of the financial statements.

BC70. Consequently, the IPSASB agreed to provide a transition period of a maximum of three years that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination as part of this Standard. The IPSASB also agreed that a first-time adopter should not recognize goodwill where it did not recognize and/or measure all the assets and/or liabilities associated with a public sector combination.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

IPSAS 37, Joint Arrangements

BC71. Based on the reasons as set out in paragraphs BC61-BC63, the IPSASB decided that a similar exemption should also be provided where a first-time adopter has one or more jointly controlled entity/entities as described in IPSAS 37.

Non-Financial Assets

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

BC72. When an entity first adopts IPSAS Standards, it may not have comprehensive information about the existence of all the assets under its control, and may require a period of time to obtain and compile appropriate records to account for such assets. As this is relevant to entities that previously did not apply the accrual basis of accounting, it is likely that these entities will require considerable effort to recognize, measure and/or classify their assets in accordance with IPSAS Standards.

BC73. In considering the relief that should be provided to a first-time adopter for the recognition of its non-financial assets when IPSAS 33 (2015) was issued, the IPSASB had considered the then-existing five-year relief period in IPSAS 17. To encourage entities to prepare for the adoption of accrual basis IPSAS Standards in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSAS Standards and not solely rely on the transition period provided in this Standard, the IPSASB was of the view that the transition period of a maximum of three years was more manageable, and would reduce the period over which entities would not be able to assert compliance with IPSAS Standards. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

BC74. The IPSASB agreed that prescribing a transition period in IPSAS 33 (2015), and subsequently this Standard, rather than allowing each jurisdiction to prescribe their own transition period, reduces inconsistencies between jurisdictions. The credibility and comparability of financial statements during the transition period will also be enhanced.

BC75. The IPSASB confirmed that the relief provided in this Standard should not be seen as a complete roadmap for the adoption of accrual basis IPSAS Standards, but rather the end stage of their adoption process. The transition period for a maximum of three years provided in this Standard is aimed at providing relief to a first-time adopter to assist with the final conversion to accrual basis IPSAS Standards. Prior to the adoption of this Standard, a first-time adopter should adequately prepare for its transition to accrual basis IPSAS Standards. The complexity and length of the transition will depend on its previous basis of accounting. The transition period of a maximum of three years should not be seen as the entire adoption phase.

BC76. The IPSASB noted that the guidance in *Pathways to Accrual* developed by the International Federation of Accountants, which builds upon the work in Study 14, *Transition to Accrual basis of Accounting: Guidance for Governments and Government Entities*, is one among many sources, that may assist a first-time adopter in planning their conversion to accrual basis IPSAS Standards, prior to applying this Standard.

BC77. The IPSASB proposed that a transition period of a maximum of three years should be provided for the following assets:

(a) Investment property;

(b) Property, plant, and equipment;

(c) Biological assets and agricultural produce;

(d) Intangible assets; and

(e) Service concession assets.

BC78. Following comments received on ED 53, the IPSASB agreed to also allow a transition period for the recognition and/or measurement of inventory. The IPSASB agreed that, even though inventory is a current asset which is realized, consumed, sold or used in an entity's operating cycle, a first-time adopter may need time to identify and classify its assets appropriately between inventory, investment property or property, plant, and equipment, particularly in respect of land. Inventory may also comprise specialized assets or high volumes of items, e.g., medical supplies, for which additional time may be required for appropriate classification.

BC79. In considering whether a transition period should be allowed for the recognition of biological assets and agricultural produce, the IPSASB noted that these assets and activities may be limited in some jurisdictions while they may be more significant in other jurisdictions, for example, developing countries. On balance, the IPSASB agreed that a transition period of a maximum of three years should be provided for the recognition of biological assets and agricultural produce to assist those jurisdictions where this is a significant issue.

BC80. IPSAS 5 allows a first-time adopter to either adopt the benchmark treatment or the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. When a first-time adopter elects to apply the allowed alternative treatment, there may a timing difference between the capitalization of borrowing costs on qualifying assets where the first-time adopter takes advantage of the transition period not to recognize certain assets. To address this timing difference, and because it might not be practical to obtain information on borrowing costs incurred prior to the recognition of the asset where the first-time adopter takes advantage of the transition period, the IPSASB agreed that a first-time adopter should not be required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of accrual basis IPSAS. Based on comments received from respondents on ED 53, the IPSASB also agreed that any borrowing costs incurred during the transition period should also not be capitalized until the exemptions that provided the relief have expired and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

BC81. After comments were received on ED 53, the IPSASB also agreed that a first-time adopter may change its accounting policy with respect to the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories are permitted in the applicable IPSAS Standard. The IPSASB further clarified the application of this practice in the 2025 IPSAS 33 limited-scope project, with updated application guidance in AG19, Implementation Guidance, and an Illustrative Example.

Transitional Exemptions relating to the Measurement of Non-Financial Assets

BC82. The IPSASB acknowledged that some entities may have recognized non-financial assets under their previous basis of accounting. The IPSASB therefore agreed that a transition period of a maximum of three years should be allowed for the measurement of all non-financial assets that were recognized by a first-time adopter under its previous basis of accounting. During this transition period, a first-time adopter will be able to develop reliable models for applying the principles in IPSAS Standards. During the transition period the first-time adopter will not be required to change its accounting policy in respect of the measurement of these assets.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

IPSAS 5, Borrowing Costs

BC83. When IPSAS 33 (2015) was being developed, the transitional provisions in IPSAS 5 encouraged a first-time adopter to adjust its financial statements retrospectively if it did not recognize borrowing costs under its previous basis of accounting. The IPSASB agreed that it does not want to provide more relief to a first-time adopter than to those entities that already apply IPSAS Standards, particularly where the first-time adopter elects to adopt the allowed alternative treatment under which borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the cost of an asset.

BC84. As a result, the IPSASB agreed that a first-time adopter should only be encouraged to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment. Providing this relief was seen as necessary because obtaining information retrospectively may be costly and considerable effort may be needed to obtain such information.

BC85. The IPSASB, however, acknowledged that some information may be available to a first-time adopter depending on its previous basis of accounting. It was therefore agreed that a first-time adopter who adopted or changed its accounting policy to the benchmark treatment, should apply the principles in IPSAS 5 prospectively, but it may designate a date before the date of adoption of IPSAS Standards in applying IPSAS 5. This relief can only be adopted to the extent that the information is available.

BC86. The IPSASB does not want to encourage first-time adopters to adopt the allowed alternative treatment. Therefore, it was agreed that where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred on qualifying assets both before and after the date of adoption of IPSAS Standards, for which the commencement date for capitalization is prior to the date of adoption of IPSAS Standards, should be recognized retrospectively where the first-time adopter has not taken advantage of the transition period not to recognize and/or measure assets for a maximum of three years.

IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets

BC87. The IPSASB acknowledged that a first-time adopter may have applied an accounting policy for the recognition and reversal of impairment losses that are different to the requirements in IPSAS 21 and IPSAS 26, or may have not considered impairment at all. On adoption of accrual basis IPSAS Standards, it may be difficult to determine the number of adjustments resulting from retrospective application of a change in an accounting policy, as this requires hindsight.

BC88. As a result, the IPSASB agreed that IPSAS 21 and IPSAS 26 should be applied prospectively, but that the first-time adopter should be required to assess whether an indicator of impairment has been triggered for its cash-generating and non-cash-generating assets in the opening statement of financial position.

BC89. In recognizing the effect of an impairment loss on first-time adoption of accrual basis IPSAS 21 or IPSAS 26, the IPSASB considered two options. The first option was to measure such assets at their recoverable amount, or recoverable service amount and use that as the deemed cost. The IPSASB noted that the effect of applying this option may mean that impairment losses could not be reversed in the future. This option was therefore not seen as appropriate.

BC90. The second option, which provides more relevant information, is to measure the assets at their recoverable amount, or recoverable service amount, and report the effect in net assets/equity. The IPSASB supported this option.

Timing of Impairment Test for Assets Where an Entity Adopts the Transition period for the Recognition of Assets

BC91. The IPSASB concluded that where a first-time adopter takes advantage of the exemption that provides relief for the recognition and/or measurement of assets, it may be difficult to retrospectively adjust the value of the asset to the date of adoption of IPSAS Standards. A first-time adopter may find it difficult to determine the number of adjustments that would be required based on impairment that may or may not have existed at the date of adoption of IPSAS Standards.

BC92. The IPSASB therefore agreed that IPSAS 21 and IPSAS 26 should be applied prospectively from the date when the transitional exemptions that provided the relief have expired, or when the relevant asset is recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier).

IPSAS 31, Intangible Assets

BC93. On first-time adoption of accrual basis IPSAS Standards, a first-time adopter will be required to recognize all assets and liabilities for which recognition is required by IPSAS Standards. IPSAS 31 requires that past expenditure on an intangible asset that was initially recognized as an expense should not be recognized as part of the cost of an intangible asset at a later date.

BC94. The IPSASB concluded that, because a first-time adopter may have expensed costs incurred on intangible assets under its previous basis of accounting prior to the adoption of accrual basis IPSAS Standards, a first-time adopter should be allowed to recognize all intangible assets that meet the recognition criteria and other criteria in IPSAS 31 (i.e., identifiable control of an asset and that future economic benefits or service potential that are attributable to the asset will flow to the entity), even though such costs may have been expensed prior to adoption of accrual basis IPSAS Standards. It was however, confirmed that such assets should only be recognized as intangible assets if reliable cost information is available and an active market exists for that asset at the date of adoption of IPSAS Standards.

Financial Assets and Liabilities

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

Transitional Exemptions Relating to the Recognition and Measurement of Financial Assets and/or Liabilities

BC95. When IPSAS 33 (2015) was being developed, the transitional provisions in IPSAS 29, *Financial Instruments: Recognition and Measurement*, did not provide any relief to a first-time adopter for the recognition and/or measurement of financial instruments. Because many public sector entities will need some time to identify and appropriately classify their financial instruments, the IPSASB agreed that a transition period should be provided to a first-time adopter for the recognition and/or measurement of financial instruments. A transition period of a maximum of three years was granted in line with the transition period provided for the recognition and/or measurement of other items.

BC96. The IPSASB, however, agreed that a distinction should be made between those entities that previously recognized financial instruments and those that did not. The IPSASB was of the view that many basic financial instruments such as cash, debtors and creditors are already recognized by public sector entities. A transition period of a maximum of three years for the recognition of financial instruments that have not been recognized under a first-time adopter's previous basis of accounting is therefore provided.

BC97. As with non-monetary assets, the IPSASB agreed that the same principle should be applied to the recognition and/or measurement of financial assets and/or liabilities, i.e., to the extent that a first-time adopter has recognized financial instruments under its previous basis of accounting, the IPSASB agreed that a transition period of a maximum of three years should be granted for the measurement and classification of financial instruments following the date of adoption of IPSAS Standards. During this transition period, a first-time

adopter will be able to develop reliable models for applying the principles in IPSAS 41, which has superseded IPSAS 29 since IPSAS 33 (2015) was issued. It would also be allowed to apply accounting policies for the measurement of financial instruments that differ from the requirements in IPSAS 41 during the transition period.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

IPSAS 28, Financial Instruments: Presentation

BC98. IPSAS 28 requires an entity to split a compound financial instrument at inception of the agreement, into separate liability and equity components. It was concluded that separating these two portions would be costly and would not provide relevant information to users of financial statements if the liability component of the compound instrument is no longer outstanding at the date of adoption of IPSAS Standards. As a result, this Standard requires that, if the liability component is no longer outstanding at the date of adoption of IPSAS Standards, the first-time adopter does not need to separate the cumulative interest on the liability component from the net assets/equity component.

IPSAS 41, Financial Instruments

BC99. The IPSASB concluded that, as it is in most instances impracticable to apply impairment principles retrospectively, the impairment of financial instruments should be applied prospectively. This exemption is consistent with the exemption provided for non-cash-generating assets and cash-generating assets in accordance with IPSAS 21 and IPSAS 26.

IPSAS 30, Financial Instruments: Disclosures

BC100. The IPSASB concluded that, if a first-time adopter did not disclose information relating to financial instruments, and the nature and extent of risks arising from financial instruments under its previous basis of accounting, obtaining such information may be costly, and therefore is not feasible.

BC101. The IPSASB therefore agreed that the disclosure requirements relating to financial instruments should be applied prospectively from the date of adoption of IPSAS Standards, or where the first-time adopter takes advantage of the exemption that provides a transition period not to recognize and/or measure financial assets, when the exemptions expire, or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier).

BC102. To the extent that a first-time adopter elects to present comparative information, the IPSASB agreed that a first-time adopter does not need to present comparative information for disclosures relating to the nature and extent of risks arising from financial instruments for the comparative period because obtaining such information may be costly, and is therefore not feasible.

Revenue and Transfer Expenses

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

Transitional Exemptions Relating to the Recognition and Measurement of Revenue

IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) and IPSAS 47, Revenue

BC103. When IPSAS 33 (2015) was developed, the transitional provisions in IPSAS 23 allowed a first-time adopter not to change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also allowed a first-time adopter not to change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue,

for a period of three years. It also required that changes in accounting policies should only be made to better conform to IPSAS 23.

BC104. The IPSASB concluded that it would be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Because of these practical challenges, the IPSASB agreed that a transition period of a maximum of three years should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual basis IPSAS Standards prior to the adoption of accrual basis IPSAS Standards. In line with the transition period provided for the recognition of assets and/or liabilities in other IPSAS Standards, and in line with the existing transition period provided for other non-exchange revenue in IPSAS 23 at the time IPSAS 33 (2015) was developed, it was agreed that a first-time adopter should be granted a transition period of a maximum of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transition period of a maximum of three years is manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSAS Standards. During the transition period, a first-time adopter will be allowed to continue to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

BC105. IPSAS 47 was issued in May 2023 and replaced IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, and requires an entity to identify and account for revenue based on whether it arises from a binding arrangement rather than by its classification as exchange or non-exchange. In its development, the IPSASB noted that it will be similarly challenging for public sector entities to implement IPSAS 47. The accounting for revenues without binding arrangements, which will encompass most non-exchange transactions previously in the scope of IPSAS 23, would continue to pose practical challenges. The accounting for revenues arising from binding arrangements (which may include both exchange or non-exchange revenues) may also require complex models, and new systems, processes, or internal controls. Consequently, the IPSASB concluded that the transition period of a maximum of three years should also be available for revenues accounted for in accordance with IPSAS 47 in order to provide transitional relief for first-time adopters.

Expenses and Non-Financial Liabilities

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

Recognition of Provisions Included in the Initial Cost of Property, Plant, and Equipment

BC106. The IPSASB concluded that no transition period should be provided for provisions in IPSAS 19 and that a first-time adopter should account for all its liabilities at the date of adoption of IPSAS Standards. The IPSASB, however, acknowledges that the delay in the recognition and/or measurement of property, plant, and equipment affects the recognition and/or measurement of certain provisions which are included in the cost of such assets.

BC107. When IPSAS 33 (2015) was issued, IPSAS 17 required an entity to include, as part of the cost of an item of property, plant, and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17 required that the obligation for costs accounted for in accordance with IPSAS 17 was recognized and measured in accordance with IPSAS 19.

BC108. The IPSASB agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time

as the relevant item of property, plant, and equipment was recognized and/or measured in accordance with IPSAS 17. A transition period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing IPSAS 45, the IPSASB noted that these principles are still applicable.

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSAS Standards

BC109. Where a first-time adopter takes advantage of one or more of the transitional exemptions relating to the recognition of assets, it would, as part of this process, analyze title deeds, contracts and other similar arrangements, including lease arrangements, in determining what assets should be accounted for and their measurement. As a result, a first-time adopter may not be in a position to account for lease liabilities related to right-of-use assets until such time as the transition period provided has expired and/or the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

BC110. Likewise, where a first-time adopter has elected to adopt the transition period provided for the recognition of service concession assets in accordance with IPSAS 32, it will not be in a position to account for the related liability under either the financial liability model or the grant of a right to the operator model until such time as the transition period provided has expired and/or the relevant assets are recognized and/or measured in accordance with IPSAS 32 (whichever is earlier).

BC111. The IPSASB agreed that the recognition of lease liabilities and the recognition and/or measurement of liabilities related to service concession assets should also be delayed until the transition period related to the relevant assets have expired and/or the applicable assets have been recognized and/or measured (whichever is earlier).

IPSAS 39, Employee Benefits

BC112. The IPSASB acknowledged that the recognition and/or measurement of specific liabilities in IPSAS 39 will be challenging for many public sector entities as new systems may be required and/or existing systems may need to be upgraded. The IPSASB therefore agreed that a first-time adopter should be given a transition period of a maximum of three years for the recognition and/or measurement of assets and liabilities related to defined benefit plans and other long-term employee benefits. To avoid a skewed statement of financial position, the IPSASB further agreed that any plan assets should be recognized and/or measured at the same time as the liabilities. All other employee benefits should be recognized and/or measured at the date of adoption of IPSAS Standards.

IPSAS 42, Social Benefits

BC113. The IPSASB issued IPSAS 42, *Social Benefits*, in January 2019. The IPSASB acknowledged that the recognition and/or measurement of liabilities related to social benefits may be challenging for some public sector entities. The IPSASB therefore agreed that a first-time adopter should be given a transition period of a maximum of three years for the recognition and/or measurement of liabilities related to social benefits.

Disclosure and Other Standards

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS Standards during the Transition Period

IPSAS 18, Segment Reporting

BC114. The IPSASB considered whether a transition period should be provided to a first-time adopter for the presentation of segment information. The IPSASB agreed that, despite the fact that the presentation of segment information might be useful, a first-time adopter should be provided a transition period, as the

information used in presenting segment information needs to be built on existing information in the financial statements.

BC115. As the IPSASB agreed to allow a transition period of a maximum of three years for the recognition and/or measurement of assets and liabilities, the information which is needed to present segment information may only be available when the exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier). As relevant and reliable information may not be available to present a meaningful segment report during the transition period, and because the presentation of a segment report may not be a priority for users during the transition to accrual basis IPSAS Standards, it was agreed that a transition period of a maximum of three years should also be provided for the presentation of segment information.

BC116. The IPSASB also concluded that, because segment information is additional to the information required on the elements presented in the financial statements, allowing this relief is appropriate.

IPSAS 20, Related Party Disclosures

BC117. In providing a first-time adopter time to build up information on its related party relationships and related party transactions, the IPSASB agreed that the disclosure of related party relationships, related party transactions and information about key management personnel should be treated in the same way as the required eliminations of balances, transactions, revenues and expenses between entities in IPSAS 34, IPSAS 36, and IPSAS 37.

BC118. This Standard therefore provides a transition period of up to three years for the disclosure of related party relationships, related party transactions and information about key management personnel.

Exemptions from Presentation and/or Disclosure Requirements Where a First-time Adopter Elects to Apply One or More Exemptions

BC119. The IPSASB acknowledged and agreed that the transition period of a maximum of three years provided for the recognition and/or measurement of assets and/or liabilities also implies that the associated presentation and/or disclosure requirements in the applicable IPSAS Standard do not need to be complied with as the information will not be available. The IPSASB agreed that the information does not need to be provided until the exemptions that provided the relief have expired or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSAS Standard (whichever is earlier).

BC120. For the same reason, the IPSASB agreed that a first-time adopter should not be required to provide any related disclosure requirements in IPSAS 1 and IPSAS 18.

Presentation of Information on First-Time Adoption

Presenting a Reconciliation Following the Adoption of Accrual basis IPSAS Standards

BC121. In considering what information would be useful to users of the financial statements in relation to the first-time adoption of accrual basis IPSAS Standards, the IPSASB agreed that a reconciliation should be presented in the notes to the transitional IPSAS financial statements, or first IPSAS financial statements. The presentation of a reconciliation provides an important link between the information previously presented under the first-time adopter's previous basis of accounting, and the information prepared using IPSAS Standards. The purpose of the reconciliation is to illustrate the adjustments that are necessary to conform with the requirements of accrual basis IPSAS Standards, and how the transition from the previous basis of accounting to accrual basis IPSAS Standards affected the first-time adopter's reported financial position, financial performance and cash flows. This information will be useful to the users of financial statements.

BC122. The IPSASB considered two types of reconciliations that could be presented – the first one reconciling opening balances as at the date of adoption of IPSAS Standards, and the second reconciling the end of the

latest period presented in the first-time adopter's most recent annual financial statements in accordance with its previous basis of accounting.

BC123. The IPSASB concluded that the latter option will be too onerous and that the cost of presenting the reconciliation outweighs the benefit. It was also concluded that users will not likely make use of such reconciliations and that the information will not have predictive value.

BC124. As a result, it was agreed that a first-time adopter should only present a reconciliation of its closing balances reported under its previous basis of accounting to its net assets/equity in accordance with IPSAS Standards for the opening statement of financial position. The information should be presented in the notes to the transitional IPSAS financial statements, or the first IPSAS financial statements.

BC125. If a first-time adopter previously applied a cash basis of accounting, it would not have presented net assets/equity. The IPSASB therefore agreed that, if a first-time adopter's previous basis of accounting is cash, it is not required to present a reconciliation.

BC126. To meet the qualitative characteristics of relevance, understandability and comparability during the period of transition where a first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of assets and/or liabilities, the IPSASB considered whether a first-time adopter should be required to present a reconciliation at different points during its transition to accrual basis IPSAS Standards.

BC127. The IPSASB agreed that, where a first-time adopter takes advantage of any of the exemptions permitted, it should present a reconciliation of items that have been recognized and/or measured during the reporting period when these items have not been recognized and/or measured in the previous reported financial statements. This reconciliation should be presented in addition to the reconciliation that is presented to explain differences between the first-time adopter's previous basis of accounting and those items that are recognized and/or measured in accordance with IPSAS Standards in the opening statement of financial position.

Alignment of Accrual IPSAS Standards and Government Finance Statistics Reporting

BC128. As the objective of this Standard is to provide a suitable starting point for accounting in accordance with accrual basis IPSAS Standards, it does not provide specific guidance to a first-time adopter on alignment of GFS reporting and accrual basis IPSAS Standards. In its Consultation Paper, *Alignment of IPSAS and Government Finance Statistics Reporting Guidelines: Resolution of Differences through Convergence and Management*, the IPSASB discusses where guidance on GFS alignment options within the suite of IPSASB's pronouncements will be best addressed. By choosing Government Finance Statistics (GFS) aligned policy options on the first-time adoption of accrual basis IPSAS Standards, a first-time adopter may facilitate production of high quality and timely data for inclusion in their GFS reports.

Revision of IPSAS 33 as a result of the IPSAS 33 Limited-scope Project

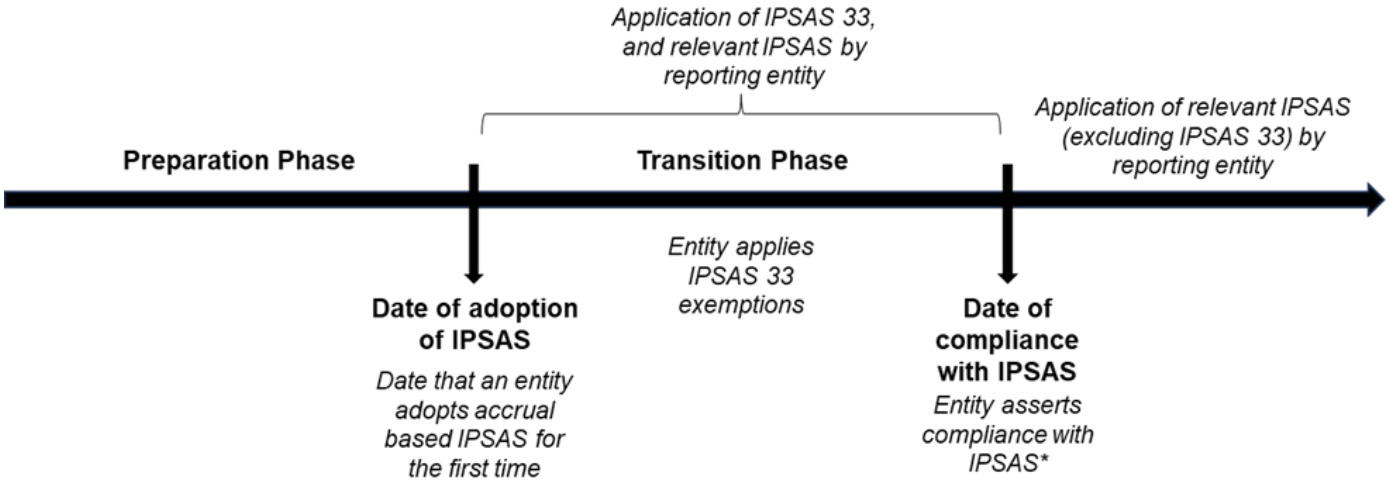
BC129. The IPSASB received strong support during its 2021 Mid-Period Consultation to add a limited scope project to revise IPSAS 33. As a result, the IPSASB approved its Project Brief in December 2023 to address two key issues with the application of IPSAS 33:

(a) Stakeholders expected IPSAS 33 to be applicable for the full transition to accrual basis IPSAS Standards and that the three-year transition period includes planning and preparation activities, which is not consistent with the objective of IPSAS 33; and

(b) The general exemption in IPSAS 33 where a first-time adopter is not required to recognize and/or measure items for reporting periods beginning on a date within three years following the date of adoption of IPSAS Standards, which in practice led to deferred recognition, measurement, and

disclosure of items until the end of the three years, and ultimately a lack of compliance with accrual basis IPSAS Standards.

BC130. The IPSASB noted that these key issues relate to the understandability and user-friendliness of IPSAS 33, rather than the usefulness of its exemptions in supporting first-time adopters in their transition to full accrual basis IPSAS Standards. The IPSASB clarified that IPSAS 33 is applied during the transition phase, after planning and preparation activities are complete:



BC131. To address key issues and enhance the understandability and effective use of IPSAS 33, the IPSASB revised existing authoritative text and added new non-authoritative text to:

(a) Clarify the objective and scope of IPSAS 33;

(b) Encourage first-time adopters to comply with full accrual basis IPSAS Standards as soon as possible, and that exemptions provided in IPSAS 33 are available for the transition period of a maximum of three years;

(c) Rearrange existing guidance to provide elective exemptions by topic, particularly between core text and application guidance, in line with current IPSAS standard-setting practice; and

(d) Remove repetitive guidance from IPSAS 33.

BC132. The IPSASB revisited the changes to relocate the definition of deemed cost from IPSAS 33 to IPSAS 46 resulting from the measurement project. The IPSASB decided to include the definition of “deemed cost” in IPSAS 33, due to its importance in applying exemptions available in IPSAS 33, by explaining that it is as defined in IPSAS 46. Furthermore, the IPSASB noted that the disclosure requirements when using current values for subsequent measurement, which had been added through amendments by IPSAS 46, were not applicable when initially measuring deemed cost. Thus, the IPSASB decided to remove those paragraphs.

BC133. The IPSASB also decided to critically review existing non-authoritative guidance to determine whether it was useful. The IPSASB decided to replace the existing non-authoritative guidance with new Implementation Guidance and Illustrative Examples to help first-time adopters better understand the application and use of IPSAS 33. In particular, new Implementation Guidance (IG) clarified: the objective and scope of IPSAS 33; specific definitions (for example “date of adoption of IPSAS Standards” and “transition period”); exemptions relating to the recognition and measurement of items; the exceptions to applying accrual basis IPSAS Standards; and presentation and disclosure. To assist first-time adopters to transition to accrual basis IPSAS Standards, new IG were included on the planning and preparation phase of the full transition to accrual basis IPSAS Standards.

Revision of IPSAS 33 as a result of ED 91, *Limited-scope Updates to First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) (Amendments to IPSAS 33)*

BC134. Respondents to ED 91, Limited-scope Updates to First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) (Amendments to IPSAS 33), were supportive of the revisions made to IPSAS 33. Respondents also provided some suggestions to enhance the clarity and usefulness of the Standard. In response to the feedback, the IPSASB:

(a) Added additional Implementation Guidance to further clarify the application of deemed cost;

(b) Expanded existing Implementation Guidance to further clarify the transition period and its length;

(c) Added an appendix with a comprehensive listing of exemptions that affect and do not affect fair presentation and compliance with IPSAS Standards;

(d) Reinstated application guidance to clarify the IPSAS Standards to which the exemptions apply and added application guidance to provide further clarity related to the recognition and measurement exemptions;

(e) Relocated application guidance and Implementation Guidance to improve flow and readability; and

(f) Made other editorial changes to improve clarity.

BC135. The IPSASB confirmed the earlier decision that IPSAS 33 was not a convergence project. IPSAS 33 does not prescribe the recognition and measurement, presentation, and disclosure of items, which are contained in other IPSAS Standards. Instead, IPSAS 33 supports entities which elected to adopt IPSAS Standards, while IFRS 1, *First-time Adoption of International Financial Reporting Standards,* supports entities which elected to adopt IFRS.

Replacement of IPSAS 33

BC136. The IPSASB considered whether the number of the Standard should change given the significant restructuring of the guidance in the Standard. The IPSASB decided to retain the number of the Standard as IPSAS 33 for the following reasons:

(a) The current number of the Standard is widely recognized by jurisdictions adopting accrual-based IPSAS Standards, as well as by future first-time adopters from various jurisdictions.

(b) Changing the Standard's number could disrupt continuity and require unnecessary adjustments in regulatory frameworks, guidance documents, and training materials.

(c) Additionally, while the existing guidance in the standard has been clarified and reordered to enhance usability and understandability, with additional non-authoritative guidance and optionality added to further support adoption, the scope, key objectives and principles of the Standard have remained consistent. As a result, constituents may be confused if the Standard has a new number when the underlying principles of the Standard have not changed.

BC137. The IPSASB noted that amendments to other IPSAS Standards, as a result of the Limited-Scope Project, are not substantive in nature. Amendments to other IPSAS Standards are limited to:

(a) Amending the title of IPSAS 33, as referenced in other IPSAS Standards, to remove the acronym for International Public Sector Accounting Standards "IPSAS"; and

(b) Replacing references to "the accrual basis of IPSAS of accounting", with "accrual basis IPSAS Standards", consistent with the title of IPSAS 33.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

Section A: Objective and Scope

A.1 *Use of IPSAS 33 by Newly Created Entities*

Can a newly created entity in its first year of operation apply IPSAS 33?

No. IPSAS 33 is intended for first-time adopters transitioning from another basis of accounting, such as a cash basis or an accrual basis under another reporting framework. An entity may be created in a jurisdiction where the regulatory framework requires it to comply with accrual basis IPSAS Standards. Such an entity would then comply with the applicable accrual basis IPSAS Standards from its creation date because it is not transitioning from another basis of accounting, even though it is the first time the entity applies accrual basis IPSAS Standards.

Section B: Definitions

B.1 *Date of Adoption of IPSAS Standards*

B.1.1 *Differences Between the Date of Adoption of IPSAS* Standards *and the Date of Announcement of Adoption*

Is the date of the announcement that a jurisdiction will adopt accrual basis IPSAS the date of adoption of IPSAS Standards?

Generally, no. Paragraph 8 of IPSAS 33 defines the date of adoption of IPSAS Standards as the date at the start of the reporting period for which the entities covered by the announcement prepare their first transitional IPSAS financial statements or their first IPSAS financial statements. In comparison, the date of announcement is the date on which a jurisdiction formally and publicly announces its decision (for example, in the national budget) that it will adopt accrual basis IPSAS Standards, which may or may not be the same as the date of adoption of IPSAS Standards. Differences between the date of adoption of IPSAS Standards and the date of announcement may arise due to a variety of reasons, including but not limited to:

- The date of the announcement may be made based on the economic, fiscal, or political timetable, which might not be an appropriate time in the financial reporting timetable.
- Once the adoption of IPSAS Standards is announced, as part of planning and preparing for the transition to accrual basis IPSAS Standards, significant preparatory work may be required and challenges may need to be overcome, such as capacity building, information-technology systems and other infrastructure needs, in order to facilitate the transition to accrual basis IPSAS Standards from the previous basis of accounting.

B.1.2 *Changing the Date of Adoption of IPSAS* Standards

Can the date of adoption of IPSAS Standards be changed during the transition period?

No. Once a first-time adopter prepares and presents its first transitional IPSAS financial statements or first IPSAS financial statements, then the date of adoption of IPSAS Standards is set and subsequent reporting during the transition period should be done in accordance with IPSAS 33 and relevant IPSAS Standards.

For example, Public Sector Entity A prepares and presents its first transitional IPSAS financial statements for the year ended December 31, 20X1. The date of adoption of IPSAS Standards is, therefore, January 1, 20X1, being the start of the reporting period of the first transitional IPSAS financial statements. From this date, IPSAS 33 and relevant IPSAS Standards should be applied by Public Sector Entity A.

B.1.3 *Comparative Information and the Date of Adoption of IPSAS Standards*

Does the election to present comparative information in the first transitional IPSAS financial statements or first IPSAS financial statements affect the date of adoption of IPSAS Standards?

No. The date of adoption of IPSAS Standards is the start of the reporting period in which an entity elects to adopt accrual basis IPSAS Standards and for which it presents its first transitional IPSAS financial statements or (if the entity does not adopt the exemptions in IPSAS 33 that affect fair presentation and compliance with accrual basis IPSAS Standards) its first IPSAS financial statements.

For example, Public Sector Entity A prepares and presents its first transitional IPSAS financial statements for the year ended December 31, 20X1. The entity elects to present comparative information for the year ended December 31, 20X0, which paragraphs AG11 of IPSAS 33 requires to be in compliance with IPSAS 1, *Presentation of Financial Statements*.

The date of adoption of IPSAS Standards remains, January 1, 20X1, being the start of the reporting period of the first transitional IPSAS financial statements.

B.2 *Transition Period*

Can the transition period of three years be adjusted if circumstances require, for example, to exceed three years?

No. The transition period is limited to a maximum of three years, as noted in paragraph 5 of IPSAS 33. A first-time adopter is required to comply with IPSAS Standards by the end of the transition period. For example, a public sector entity with a date of adoption of IPSAS Standards of January 1, 20X1 and who elects to apply exemptions that affect fair presentation and compliance with IPSAS Standards for the maximum transition period, must present its first IPSAS financial statements in full compliance with IPSAS Standards for the year ending on December 31, 20X3. Note that in the financial statements issued for the December 31, 20X3 year end, the comparative figures presented for the year ended December 31, 20X2 do not have to be in full compliance with accrual basis IPSAS Standards in this situation (i.e., neither the opening balances at January 1, 20X2 nor the closing balances at December 31, 20X2 have to be in full compliance with accrual basis IPSAS Standards) in order for the public sector entity to make an explicit and unreserved statement of compliance with IPSAS Standards. See illustration in D.1 for further details.

The transition period also does not include any preparation or planning activities (see Section F: Planning and Preparation Phase of IPSAS Transition), which an entity should complete prior to beginning the transition period. The three-year limit does not preclude an entity from transitioning to full accrual basis IPSAS Standards in less than three years. An entity is encouraged to comply with IPSAS Standards in less than three years (i.e., to use a shorter transition period).

Prior to the date of adoption of IPSAS Standards, a first-time adopter needs to have adequately prepared for its transition to accrual basis IPSAS Standards. Various sources of external guidance may assist a first-time adopter with planning the conversion to accrual basis IPSAS Standards. The transition period of up to three years should not be seen as a complete roadmap for the adoption of accrual basis IPSAS Standards, but rather the end stage of the adoption process.

B.3 *Transitional IPSAS Financial Statements and First IPSAS Financial Statements*

When an entity only elects exemptions that do <u>not</u> affect fair presentation, should the financial statements be referred to as "transitional IPSAS financial statements" or "first IPSAS financial statements"?

Paragraph AG5 of IPSAS 33 provides exemptions, which if elected, do not affect fair presentation. Financial statements prepared with these elected exemptions only should be referred to as "first IPSAS financial statements" as defined in paragraph 8 of IPSAS 33.

Compliance with accrual basis IPSAS Standards means that an entity is able to present fairly its financial position, financial performance and cash flows (see IPSAS 1.27). Therefore, if a first-time adopter only elects exemptions that do not affect fair presentation, it can make an explicit and unreserved statement of compliance with accrual basis IPSAS Standards as required by paragraph 6 of IPSAS 33. The Basis of Preparation paragraph in the notes to the financial statements shall highlight this fact. For example:

"Basis of Preparation

The financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSAS Standards*) and in accordance with [legislative prescript or other determination]. The date of adoption of IPSAS* Standards *is January 1, 20X1."*

However, if any of the exemptions in paragraph AG4 of IPSAS 33 are elected, i.e., exemptions that affect fair-presentation, the first-time adopter will not be able to make an explicit and unreserved statement of compliance with accrual basis IPSAS Standards per paragraph 6 of IPSAS 33. In this instance, the financial statements should be referred to as "transitional IPSAS financial statements". The Basis of Preparation should highlight this fact. For example:

"Basis of Preparation

"The financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSAS Standards), except as allowed for by IPSAS 33, First-Time Adoption of Accrual Basis IPSAS, where a first-time adopter may elect to not recognize and/or measure certain assets and/or liabilities and/or revenue and/or expenses, for a transition period of up to three years, and in accordance with [legislative prescript or other determination].

The date of adoption of IPSAS Standards is January 1, 20X1. During the transition period, [Name of Entity] elected to not recognize certain items of property, plant, and equipment. As a result, it is unable to make an explicit and unreserved statement of compliance with accrual basis IPSAS Standards in preparing its transitional IPSAS financial statements for this reporting period. [Name of Entity] intends to recognize and/or measure all items of property, plant, and equipment by December 31, 20X3."

B.4 *Opening Statement of Financial Position*

B.4.1 *Reporting Amounts in the Opening Statement of Financial Position*

What amounts should be reported in the Opening Statement of Financial Position?

Where the first-time adopter elects to apply any of the exemptions in paragraph AG9 to AG133 of IPSAS 33, the following two scenarios affect the opening statement of financial position:

- For exemptions affecting recognition -- amounts for assets and/or liabilities may not be reported at all.
- For exemptions affecting measurement -- the amounts for assets and/or liabilities recognized under IPSAS Standards may equal the closing amounts reported under the first-time adopter's previous basis of accounting.

B.4.2 *Adjusting Amounts Reported in the Opening Statement of Financial Position*

Should amounts reported in the Opening Statement of Financial Position be adjusted when accounting policies change during the transition period?

It depends. When a first-time adopter elects to apply the exemptions that affect fair presentation (that is, not to recognize and/or measure certain assets and/or liabilities), the first-time adopter shall recognize any

adjustments to the opening balance of accumulated surplus or deficit (or, if appropriate, another category of net assets/equity) in the period in which the items are recognized and/or measured.

For example, Public Sector Entity A's date of adoption of IPSAS Standards is January 1, 20X1. At the date of adoption of IPSAS Standards, it elected certain exemptions.

Public Sector Entity A makes accounting policy adjustments in the reporting period 20X1. Consequently, Public Sector Entity A should make adjustments to the accumulated surplus or deficit at January 1, 20X1. This will affect the Opening Statement of Financial Position.

If Public Sector Entity A continues to make more accounting policy adjustments in the reporting period 20X2 (i.e., the second year of its transition), then the adjustments for the reporting period 20X2 should be made to the accumulated surplus or deficit at January 1, 20X2. This will not affect the Opening Statement of Financial Position. Subsequently, the entity should adjust the opening balance of each affected component of net assets/equity in the current year.

Section C: Recognition and Measurement

C.1 *Use of Exemptions not within IPSAS 33*

Can a first-time adopter elect not to recognize and/or measure an asset or liability during the transition period if there is no specific exemption provided for such item in IPSAS 33?

No. IPSAS 33 provides a comprehensive list of exemptions a first-time adopter can elect to apply (paragraphs AG4-AG5), and prohibits the first-time adopter from applying those exemptions by analogy to other items (paragraphs 9 and 10 of IPSAS 33). Where there is no exemption provided for an item, an entity shall recognize and measure that item in accordance with the relevant accrual basis IPSAS Standards at the date of adoption of IPSAS Standards. For example, the exemption in paragraph AG118 of IPSAS 33 only applies to defined benefit plans and other long-term employee benefits and cannot be applied by analogy to other employee benefits and related liabilities (e.g., short-term employee benefits such as paid absences, which are to be recognized and measured in accordance with IPSAS 39, *Employee Benefits*).

C.2 *Assets / Liabilities Acquired/Accrued during the Transition Period*

Can the first-time adopter recognize and/or measure new items acquired and/or accrued after the date of adoption of IPSAS Standards, in accordance with IPSAS Standards, when the entity elected to apply related exemptions under IPSAS 33?

It depends. A first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories is permitted in the applicable IPSAS Standard as noted in paragraph AG19 of IPSAS 33. This is commonly applied in one of two ways:

Example 1 – Recognition and measurement when information is available for the entire category of assets and/or liabilities

Public Sector Entity A acquires 10 new vehicles during the transition period. At the date of adoption, it had 50 vehicles. The entity elected from the date of adoption of IPSAS Standards not to recognize and measure vehicles (a separate class of property, plant, and equipment) under IPSAS 45, Property, Plant, and Equipment due to a lack of relevant financial information at the date of adoption. The entity should account for the 10 new vehicles under its previous basis of accounting until the entity has obtained the required information on the existing 50 vehicles and able to change its accounting policy for the recognition and/or measurement of all vehicles.

Example 2 – Recognize and measure assets and/or liabilities on a gradual basis as information becomes available to support their recognition and measurement

Public Sector Entity A acquires 10 new vehicles during the transition period. At the date of adoption, it had 50 vehicles. The entity elected from the date of adoption of IPSAS Standards not to recognize and measure vehicles (a separate class of property, plant, and equipment) under IPSAS 45, Property, Plant, and Equipment due to a lack of relevant financial information at the date of adoption. The entity can account for the 10 new vehicles in accordance with IPSAS 45 on acquisition because it has sufficient information for recognition and measurement and continue to account for the existing 50 vehicles under its previous basis of accounting until the entity has obtained the required information to be able to change its accounting policy for the recognition and/or measurement of the vehicles.

C.3 *Reporting Entity Application of Exemptions*

Can the economic entity of consolidated financial statements or financial statements applying the equity method, claim compliance with IPSAS 33 where the election of exemptions for recognition and/or measurement of the same items differs among the combined entities?

No. Consolidated financial statements (in the scope of IPSAS 35) and financial statements applying the equity method (in the scope of IPSAS 36) should be prepared using uniform accounting policies. Where different elections are made between the entities of the economic entity (i.e., the controlling and controlled entities, joint ventures or associates), appropriate adjustments should be made to the combined entities' financial statements in preparing the consolidated financial statements (or where the equity method is applied, those financial statements), to ensure uniformity of the economic entity's accounting policies. Furthermore, the exemptions which entities may elect should be as described in paragraph AG9-AG133 of IPSAS 33.

C.4 *Incomplete Non-Financial Asset Recognition at the Date of Adoption of IPSAS Standards*

Can a first-time adopter apply the exemptions in IPSAS 33 to individual items of non-financial assets, which existed but were not recognized at the date of adoption of IPSAS Standards, when other items of that same class were recognized?

No. Fundamentally, an error was made by the first-time adopter under its previous basis of accounting, by not recognizing items of non-financial assets when other items in the same class had been recognized. This error should be corrected by recognizing these non-financial assets under the entity's previous basis of accounting, as at the date of adoption. Only after the error had been corrected can the first-time adopter elect to apply the exemptions in IPSAS 33 relating to the measurement of these recognized non-financial assets.

C.5 *Deemed Cost*

C.5.1 *Application of Deemed Cost*

When can an entity use a deemed cost in accordance with IPSAS 33?

A deemed cost may only be used if no reliable cost information is available about the historical cost of the asset and/or liability. This allowance applies in two scenarios with differing points in time (see paragraphs AG30 and AG33 of IPSAS 33):

(a) Where the first-time adopter recognizes and/or measures items, then at the date of adoption of IPSAS Standards; or

(b) Where the first-time adopter elects to apply the exemptions not to recognize and/or measure items, then at any point in time ("at any point in time" refers to the timing of the measurement effort, not to the as-of date of the measurement) during the transition period.

When a first-time adopter initially measures these assets and/or liabilities, it recognizes the effect directly in accumulated surplus or deficit in the opening statement of financial position in the period in which the deemed cost is determined.

C.5.2 *Deemed Cost in IPSAS 33 and IPSAS 46*

How does IPSAS 33 compare to IPSAS 46, *Measurement,* in regards to deemed cost*?*

Deemed cost as defined in IPSAS 46, *Measurement,* is an amount used as a surrogate for transaction price at the measurement date. IPSAS 46 sets out generic guidance on the application of deemed cost in practice.

IPSAS 33 builds upon the foundational guidance for deemed cost in IPSAS 46, and provides additional guidance on how to determine deemed cost for certain assets and liabilities upon adoption of IPSAS Standards when a first-time adopter chooses to apply IPSAS 33.

The deemed cost guidance in IPSAS 46 was developed to be consistent with the existing guidance in IPSAS 33. However, where specific deemed cost guidance in IPSAS 33 exists, it takes precedence over the generic guidance in IPSAS 46.

Section D: Exceptions to the Retrospective Application of IPSAS Standards

D.1 *Basis of Preparation*

Do the exemptions in IPSAS 33 impact a first-time adopter's financial statements by the end of the transitional period?

No. The exemptions in paragraphs AG4 and AG5 of IPSAS 33 only affect a first-time adopter's financial statements during the transition period up to and including the end of the second year following the date of adoption of IPSAS Standards. Once the first-time adopter continues into the third and final year (maximum) of the transition period, it shall apply accounting policies that are consistent with accrual basis IPSAS Standards, so that by the end of the third year, those financial statements comply in full with IPSAS Standards (referred to as the first IPSAS financial statements). Consider the following example:

A public sector entity has a date of adoption of IPSAS Standards of January 1, 20X1 and elects to apply exemptions that affect fair presentation and compliance with IPSAS Standards for the maximum transition period of three years. The public sector entity must present its first IPSAS financial statements in full compliance with IPSAS Standards by the end of the third year ending on December 31, 20X3.

Financial Statements for Year Ended	**Type of Financial Statements**	**Use of Exemptions**	**Statement of Financial Position Opening Balances at Jan 1 in Full Compliance with IPSAS Standards**	**Statement of Financial Position Closing Balances at Dec 31 in Full Compliance with IPSAS Standards**	**Entity able to make an Explicit and Unreserved Statement of Compliance with IPSAS Standards**
December 31, 20X1	First set of transitional IPSAS financial statements	Entity is applying exemptions that affect fair presentation and compliance with IPSAS Standards	No	No	No

December 31, 20X2	Second set of transitional IPSAS financial statements	Entity is applying exemptions that affect fair presentation and compliance with IPSAS Standards	No	No	No
December 31, 20X3	First set of financial statements in compliance with IPSAS Standards	By **end** of the third year ending December 31, 20X3 the entity is no longer applying exemptions that impact fair presentation and compliance with IPSAS Standards*	Yes	Yes	Yes

*Note that in the financial statements issued for the December 31, 20X3 year end, the comparative figures presented for the year ended December 31, 20X2 do not have to be in full compliance with accrual basis IPSAS Standards in this situation (i.e., neither the opening balances at January 1, 20X2 nor the closing balances at December 31, 20X2 have to be in full compliance with accrual basis IPSAS Standards) in order for the public sector entity to make an explicit and unreserved statement of compliance with IPSAS Standards, This is because the public sector entity made the decision to apply the exemptions permitted in IPSAS 33 that affect fair presentation and compliance with IPSAS Standards for the maximum three year transition period. For instance, the entity elected to apply exemptions to not recognize and/or measure certain assets and/or liabilities. As explained in paragraph AG18 and as further illustrated by the example in B.4.2, **in the period** in which the first-time adopter recognizes and/or measures those assets and/or liabilities, adjustments are made to the **opening balance** of accumulated surplus or deficit (or, if appropriate, another category of net assets/equity). So in this example, if those assets and/or liabilities are recognized and measured during the December 31, 20X3 year, adjustments are made to the opening balance of accumulated surplus or deficit at January 1, 20X3. The entity does not go back and restate the prior period comparative figures in this situation.

However, when accounting policies are applied for the first time, unrelated to the exemptions, they should be applied retrospectively. As a result, the first IPSAS financial statements should represent the financial position as at the beginning (i.e., January 1, 20X3) and end (i.e., December 31, 20X3) of that year, and the financial performance and changes in net assets/equity for that year, in accordance with accrual basis IPSAS Standards.

D.2 *Changes in Estimates*

How should changes in estimates before and after the date of adoption of IPSAS Standards be accounted for?

IPSAS 33 prohibits the retrospective application of changes in estimates following the date of adoption of IPSAS Standards. Paragraph 18 of IPSAS 33 requires the first-time adopter's estimates at the date of adoption of IPSAS Standards to be consistent with estimates made in accordance with the previous basis of accounting. The first-time adopter should account for any changes in accordance with IPSAS 3, *Accounting*

Policies, Changes in Accounting Estimates, and Errors, prospectively. Refer to paragraph AG77 for an example.

New estimates, which were not required under the previous basis of accounting, shall equally be treated on a prospective basis, to reflect conditions that existed at the date of adoption of IPSAS Standards or at a date during the transition period. For example, for non-financial assets, such as property, plant, and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgment at the date of adoption of IPSAS Standards or a date during the transition period.

Section E: Presentation and Disclosure

E.1 *Reconciliations to Amounts Under Previous Basis of Accounting*

What is the purpose of the reconciliations required by IPSAS 33?

Paragraph 29 of IPSAS 33 requires a first-time adopter (other than a first-time adopter that had previously presented financial statements on a cash basis (paragraph 28 of IPSAS 33)) to present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSAS Standards for its first transitional IPSAS financial statements or its first IPSAS financial statements. A reconciliation is also presented of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS Standards.

Furthermore, paragraph 33 of IPSAS 33 requires a first-time adopter that elects to apply the exemptions not to recognize and/or measure items, to present a reconciliation of items that have been recognized and/or measured during the reporting period which were not recognized and/or measured in the previous financial statements.

The presentation of these reconciliations provides useful information for decision-making by providing links to information previously presented under the previous basis of accounting, and the information prepared using IPSAS Standards, and to meet the qualitative characteristics of relevance, understandability and comparability during the transition period.

The purpose of the reconciliations is to illustrate the adjustments that are necessary to conform with the requirements of accrual basis IPSAS Standards. Such reconciliations are illustrated in the Illustrative Examples.

Section F: Planning and Preparation Phase of IPSAS Standards transition

F.1 *Planning and Preparation for Transition to Accrual Basis IPSAS Standards*

Prior to the date of adoption of IPSAS Standards, what factors should be considered to plan and prepare for the transition to accrual basis IPSAS Standards?

Successful transition to accrual basis IPSAS Standards depends on proper planning and preparation. The application of IPSAS 33 is the final phase of the transition to accrual basis IPSAS Standards and applies from the date of adoption of IPSAS Standards. A first-time adopter should consider other sources of guidance, such as those issued by the International Federation of Accountants (e.g., Pathways to Accrual), to assist with the planning and preparation phase prior to the date of adoption of IPSAS Standards. Important factors to consider during this pre-adoption, planning and preparation phase may include, but are not limited to:

- Public Financial Management (PFM) Reform

  Appropriate PFM reform should identify accrual basis accounting (which includes accrual basis IPSAS Standards) as an effective basis to prepare financial statements to communicate to stakeholders and address their accountability and decision-making needs.

- Governance

Governance comprises the arrangements put in place to ensure that the intended outcomes of the transition to accrual basis IPSAS Standards are defined and achieved based on stakeholders' needs.

- Change Management

  The transition to accrual basis IPSAS Standards results in change, for example which transactions and events are reported. Necessary changes should be embedded in the entity -- the first-time adopter.

- Communications Strategy and Plans

  Public sector entities require clear, trusted channels of communication. These should explain the PFM reform and the improvements in financial information that will be useful for accountability and decision-making purposes of stakeholders, including service recipients and their representatives and resource providers and their representatives.

- Implementation Strategy and Plan (ISP)

  ISPs need to be prepared following the decision to transition to accrual basis IPSAS Standards. The national ISP (if applicable) should be written at a strategic level. There may also be sectoral ISPs, for example, local government. More detailed ISPs prepared at individual entity level should consider issues such as IT systems (e.g., accounting software) and processes and procedures.

- Capacity Building

  The transition to accrual basis IPSAS Standards requires education and training of stakeholders at different levels and at different stages of the transition and once IPSAS Standards are applied in full.

- Accounting Standards and Policies

  A jurisdiction planning to migrate its public sector to an accrual basis financial accounting and reporting framework might select IPSAS Standards with or without adaptation, or another basis of accounting based on IPSAS Standards.

  It is generally appropriate and helpful to consider implementing IPSAS Standards by topic, set out in paragraph AG4 and AG5 of IPSAS 33.

  Accounting standards require the development of reliable models for recognizing and measuring the related items, which a first-time adopter should develop during the planning and preparation phase and for which the transition period described in paragraph AG8 of IPSAS 33 may be used. Such accounting models may be required for the recognition and/or measurement of the items set out in the Application Guidance of IPSAS 33, for example: property, plant, and equipment, revenues, and financial instruments.

F.2 *Entity Operations*

How and when should an entity consider the accounting activities it should include in its financial statements in accordance with IPSAS Standards?

Planning and preparing for the transition to accrual basis IPSAS Standards includes the identification of activities and related items that will be recognized in the first-time adopter's financial statements in accordance with the Conceptual Framework and applicable IPSAS Standards. This may involve various actions, including, but not limited to:

(a) Determining if the entity itself controls the resources and incurs the obligations or merely acts as an agent of the government or another government entity;

(b) Establishing the entity's boundaries as a reporting entity; and

(c) Performing a gap analysis of existing and expected financial reporting, including the previous basis of reporting and requirements under IPSAS Standards.

These activities should be identified and concluded on before the date of adoption of IPSAS Standards, so as to determine which exemptions should be elected for application from the date of adoption of IPSAS Standards and to promote the correct application of the elected exemptions during the transition period.

Furthermore, the relief provided in IPSAS 33 should not be seen as a complete roadmap for the adoption of accrual basis IPSAS Standards, but rather the end stage of the adoption process, and the first-time adopter should avoid using the transition period to identify its activities and related items.

Additional insights on the actions to support public financial reform, including adoption of accrual basis IPSAS Standards, can be found outside of the IPSASB's literature, for example Pathways to Accrual published by the International Federation of Accountants.

F.3 *Approaches for Transitioning to IPSAS Standards*

What are the possible approaches for transitioning to accrual basis IPSAS Standards?

A transition to accrual basis accounting is often depicted as either a 'big-bang' approach or a phased approach. In practice, however, there are variations that can be considered when developing the national transition strategy and plan.

The 'big-bang' approach entails requiring all entities within the program to adopt all of the requirements of IPSAS Standards and publish audited financial statements from a particular date. In some jurisdictions, the big bang approach is the only option due to administrative law requiring entities to follow formal legislation for financial reporting, which may not permit entities to phase the transition, while the parallel application of the previous basis of accounting and accounting under accrual basis IPSAS Standards is costly and requires additional operational capacity.

The phased approach is one where IPSAS Standards are implemented in stages – the stages depending on the institutional and individual capacity with a jurisdiction or within sectors, with the aim of meeting IPSAS Standards requirements to the fullest extent practicable by the end of the transition period. For example, accrual accounting requires the recognition of all assets and liabilities which meet the definition of and satisfy the criteria for recognition. Under the phased approach, an entity might be permitted to move to the full accrual basis IPSAS Standards by recognizing assets and liabilities in stages. IPSAS 33 is designed for a phased approach, i.e., it includes some exemptions over a period of up to three years.

It should be noted that, while the exemptions in IPSAS 33 support both approaches, IPSAS 33 does not prescribe a particular approach for transitioning to accrual basis IPSAS Standards, and that any approach taken by a jurisdiction would depend on various factors, including those noted above, ultimately making the approach unique to that jurisdiction.

Additional insights on the elements of reform implementation can be found outside of the IPSASB's literature.

F.4 *Pre-Adoption Consideration of IPSAS 33*

Can an entity consider the guidance in IPSAS 33 to prepare for its transition to accrual basis IPSAS Standards?

Yes. An entity planning to transition to accrual basis IPSAS Standards is encouraged to consider the requirements, exceptions and allowed exemptions in IPSAS 33 to plan and prepare for its transition. In doing so, the entity would know what to prepare for and which exemptions provided may be relevant to elect given its current state of operations, resources, accounting systems and reporting requirements. Although the transitional exemptions in IPSAS 33 are meant to support entities along their journey to implement IPSAS

Standards and should be seen as the last stage of the adoption process, considering these would assist entities to create detailed plans to ultimately apply the requirements in accrual basis IPSAS Standards.

An entity may be transitioning from its previous basis of accounting such as when it:

(a) Prepared its most recent previous financial statements in accordance with the IPSAS, *Financial Reporting Under the Cash Basis of Accounting*;

(b) Presented its most recent previous financial statements:

  (i) In accordance with prescribed requirements that are not consistent with IPSAS Standards in all respects;

  (ii) In conformity with IPSAS Standards in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IPSAS Standards;

  (iii) Containing an explicit statement of compliance with some, but not all, IPSAS Standards, including the adoption of the exemptions provided in this IPSAS Standard that affect fair presentation and compliance with accrual basis IPSAS Standards;

  (iv) In accordance with prescribed requirements inconsistent with IPSAS Standards, using some individual IPSAS Standards to account for items for which prescribed requirements did not exist; or

  (v) In accordance with prescribed requirements, with a reconciliation of some amounts to the amounts determined in accordance with IPSAS Standards;

(c) Prepared financial statements in accordance with IPSAS Standards for internal use only, without making them available to external users;

(d) Prepared a reporting package in accordance with IPSAS Standards for consolidation purposes without preparing a complete set of financial statements as defined in IPSAS 1; or

(e) Did not present financial statements for previous periods.

An entity should prepare well in advance for its transition to accrual basis IPSAS Standards and there is a need for a clearly sequenced and phased strategy with a credible timeframe for implementation of accrual accounting prior to IPSAS Standards adoption.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 33.

Example 1 – Reconciliations required by paragraph 29 of IPSAS 33

IE1. Paragraph 29 of IPSAS 33 requires a first-time adopter to present a reconciliation of its closing balances reported under its previous basis of accounting to its net assets/equity in accordance with IPSAS Standards for its first transitional IPSAS financial statements or its first IPSAS financial statements. A reconciliation is also presented of its accumulated surplus or deficit in accordance with its previous basis of accounting to its accumulated surplus or deficit at the date of adoption of IPSAS Standards. A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present the reconciliations required in paragraph 29.

IE2. For example, a first-time adopter, which previously applied a modified-accrual basis of accounting, adopts accrual basis IPSAS Standards on January 1, 20X4 and elects to present comparative information as permitted in IPSAS 33. The first-time adopter shall, in accordance with paragraph 29 of IPSAS 33, present a reconciliation in the notes to its transitional IPSAS financial statements that provides sufficient detail to enable users to understand the material adjustments to the opening statement of financial position as at January 1, 20X4, and the restated comparative statement of financial performance, where applicable.

IE3. The following illustrates how the entity in the example would present the adjustments to the opening statement of financial position:

		Closing balance under previous basis of accounting	**IPSAS adjustments**	**Opening statement of financial position**
	Notes	**December 31, 20X3**		**January 1, 20X4**
		CU	**CU**	**CU**
Assets				
Current assets				
Cash and cash equivalents	1	2,000	800	2,800
Receivables from exchange transactions	2	1,500	(600)	900
Inventories	3		200	200
Total current assets		3,500	400	3,900

	Notes	Closing balance under previous basis of accounting December 31, 20X3	IPSAS adjustments	Opening statement of financial position January 1, 20X4
		CU	CU	CU
Non-current assets				
Property, plant, and equipment	4	300	(100)	200
Investments	1	3,800	(800)	3,000
Total non-current assets		4,100	(900)	3,200
Total assets		7,600	(500)	7,100
Liabilities and net assets				
Current liabilities				
Deferred revenue	5		700	700
Employee benefit liability	6		50	50
Non-exchange liabilities	7	4,000	500	4,500
Total current liabilities		4,000	1,250	5,250
Non-current liabilities				
Employee benefit liability	6		250	250
Concessionary borrowings	8	1,000	(400)	600
Total non-current liabilities		1,000	(150)	850
Total liabilities		5,000	1,100	6,100

	Notes	Closing balance under previous basis of accounting December 31, 20X3	IPSAS adjustments	Opening statement of financial position January 1, 20X4
		CU	CU	CU
Net assets				
Accumulated surpluses and deficits		2,600	(1,600)	1,000
Total net assets		2,600	(1,600)	1,000
Total liabilities and net assets		7,600	(500)	7,100

IE4. The following illustrates the reconciliation of the balance of net assets/equity reported in accordance with the entity's previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS Standards together with the related disclosures.

Reconciliation of net assets on January 1, 20X4

The changes due to IPSAS Standards' implementation had a net negative effect of CU 1,600 on accumulated surpluses or deficits/net assets, as shown in the table below:

	Notes	Adjustments January 1, 20X4
		CU
Adjustment to allowance for credit losses on accounts receivable	2	(600)
Recognition of inventories	3	200
Adjustment to buildings	4	(100)
Recognition of deferred revenue	5	(700)
Recognition of employee benefit liability	6	(300)
Adjustment to foreign exchange liabilities (unrealized exchange loss)	7	(500)
Adjustment to concessionary borrowings	8	400
Total IPSAS adjustments		**(1,600)**
Closing balance net assets December 31, 20X3		**2,600**
Opening balance net assets January 1, 20X4		**1,000**

Notes

1. **Cash equivalents**

Time deposits amounting to CU 800 were reclassified from investments to cash and cash equivalents as required by IPSAS Standards.

2. **Adjustment to allowance for credit losses accounts receivable**

To comply with IPSAS Standards, an adjustment of CU 600 was recorded to reflect the increase of the allowance for credit losses on accounts receivable at the beginning of the year.

3. **Initial recognition of inventories**

To comply with IPSAS Standards, inventories are recognized in the statement of financial position for the first time as of January 1, 20X4 for CU 200. Inventories were not recognized under the previous accounting policies.

4. **Adjustment to buildings**

The entity has adopted the transitional provision for property, plant, and equipment. The only asset class recognized as of January 1, 20X4 is buildings. Under the previous accounting policies, buildings were included in the financial statements at historical cost without depreciation or impairment. An adjustment of CU 100 for accumulated depreciation and impairment for buildings was recognized as an adjustment to net assets/equity.

5. **Initial recognition of deferred revenue**

An adjustment of CU 700 was required to the opening balance of net assets/equity to recognize as deferred revenue, cash receipts from telecommunications companies for a 15-year license for 5G-networks that had been recognized in surplus or deficit in the year of receipts.

6. **Initial recognition of employee benefit liability**

Liabilities relating to pensions as per actuarial valuations have been recognized in the financial statements based on their valuation as of January 1, 20X4. These post-employment benefit liabilities (totaling CU 300) have been classified as current (250) and non-current (50).

7. **Adjustment to foreign exchange liabilities (unrealized exchange loss)**

Liabilities denominated in foreign currencies are now revalued at closing rates at reporting date. Going forward, unrealized foreign exchange gains and losses will be reported in surplus or deficit. Under the previous basis of accounting, any unrealized foreign exchange gains and losses were disclosed in the notes to the financial statements and were recognized in the financial statements in the accounting period in which they realized. An adjustment of CU 500 for accumulated unrealized exchange gains and losses was recognized as an adjustment to net assets/equity.

8. **Adjustment to concessionary borrowings**

In the past, a foreign government provided an interest-free loan for the construction of a bridge. The loan of CU 1,000 is repayable over a 30-year period with effect from the first year of the completion of the bridge. The loan was adjusted by CU 400 to reflect the amortized cost of the loan using the effective interest rate of 1.23%.

Example 2 – Reconciliations required by paragraph 33 of IPSAS 33

IE5. Paragraph 33 of IPSAS 33 requires a first-time adopter that elects to apply the exemptions not to recognize and/or measure items, to present a reconciliation of items that have been recognized and/or measured during the reporting period which were not recognized and/or measured in the previous financial statements.

IE6. For example, a first-time adopter whose date of adoption is January 1, 20X2 adopts the exemption in IPSAS 33 that allows it to not recognize investment property for a period of three years as outlined in paragraph AG57(c). The first-time adopter applies this exemption and only recognizes the investment property at the end of year three, i.e. December 31, 20X4. As an adjustment is made to the opening balance of accumulated surplus or deficit as at January 1, 20X4 in recognizing the investment property, paragraph 33 requires the first-time adopter to present a reconciliation in its notes to the financial statements for the

year ending December 31, 20X4 to allow users to understand the adjustment that was made following the recognition of the investment property.

IE7. The following illustrates the related disclosures the entity in the example could provide in its financial statements for the year ended December 31, 20X4.

Note: if the first-time adopter recognized and measured the investment property on a gradual basis as information becomes available, it would be required to provide the reconciliation required in paragraph 33 each year it recognized additional investment properties.

Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X4

	Attributable to owners of the controlling entity		**Total net assets/equity**
	Accumulated surpluses/deficits	**Other reserves**	
	CU	**CU**	**CU**
Opening balance as at January 1, 20X4	210,000	10,000	220,000
Measurement of investment property at deemed cost in accordance with IPSAS 33 (see note 34)	1,500,000		1,500,000
Restated opening balance as at January 1, 20X4	1,710,000	10,000	1,720,000
Surplus for the period	5,000		5,000
Balance as at December 31, 20X4	1,715,000	10,000	1,725,000

Notes to the financial statements of Public Sector Entity X as at December 31, 20X4:

Note 34 – Investment Property

	December 31, 20X4
	CU
Opening balance of investment property as previously reported	-
Investment property measured at deemed cost as provided in IPSAS 33 on January 1, 20X4	1,500,000
Restated opening balance of investment property at January 1, 20X4	1,500,000

***Transitional exemptions adopted in IPSAS 33 on adoption of accrual basis and during transition to IPSAS* Standards**

On adoption of accrual basis IPSAS Standards on January 1, 20X2, Public Sector Entity X applied a transitional exemption in IPSAS 33 that allowed it to not recognize its investment property in its financial statements for each of the two years following the date of adoption. In the year ended December 31, 20X4, Public Sector Entity X used deemed cost in measuring investment property as permitted by IPSAS 33 as reliable cost information about its investment

properties was not available. As a result, Public Sector Entity X restated its opening balance of investment property as CU 1,500,000 on January 1, 20X4.

Note 54 – Reconciliation of net assets/equity and accumulated surpluses or deficits on January 1, 20X4

Reconciliation of net assets/equity as on January 1, 20X4

	Net assets/equity as on January 1, 20X4
	CU
Opening balance of net assets/equity as on January 1, 20X4 as previously reported	220,000
Recognition of investment property at deemed cost (see note 34)	1,500,000
Restated opening balance of net assets/equity as on January 1, 20X4	**1,720,000**

Reconciliation of accumulated surpluses or deficits on January 1, 20X4

	Net assets/equity as on January 1, 20X4
	CU
Opening balance of accumulated surpluses or deficits as on January 1, 20X4 as previously reported	*210,000*
Recognition of investment property at deemed cost (see note 34)	*1,500,000*
Restated opening balance of accumulated surpluses or deficits as on January 1, 20X4	***1,710,000***

IPSAS 34, *SEPARATE FINANCIAL STATEMENTS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 27, *Separate Financial Statements* published by the International Accounting Standards Board (IASB®). Extracts from IAS 27 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 34, *SEPARATE FINANCIAL STATEMENTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting *Standards issued up to January 31, 2026.*

IPSAS 34, *Separate Financial Statements* was issued in January 2015.

Since then, IPSAS 34 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in IPSAS 34

Paragraph Affected	How Affected	Affected By
4	Deleted	*The Applicability of IPSAS* April 2016
5	Deleted	*The Applicability of IPSAS* April 2016
6	Amended	IPSAS 41 August 2018
12	Amended	IPSAS 41 August 2018 IPSAS 44 May 2022
13	Amended	IPSAS 41 August 2018
14	Amended	IPSAS 41 August 2018 *Improvements to IPSAS* October 2018
15	Amended	IPSAS 41 August 2018
22	Amended	IPSAS 41 August 2018 *Improvements to IPSAS* October 2018
Heading above paragraph 23A	New	IPSAS 46 May 2023
23A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
23B	New	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
23C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
23D	New	IPSAS 46 May 2023
23E	New	IPSAS 46 May 2023
23F	New	IPSAS 46 May 2023
23G	New	IPSAS 46 May 2023
23H	New	IPSAS 46 May 2023
26	Amended	IPSAS 41 August 2018
30	Amended	IPSAS 41 August 2018 *Improvements to IPSAS* October 2018
32A	New	*The Applicability of IPSAS* April 2016
32B	Amended	*COVID-19: Deferral of Effective Dates* November 2020
32C	New	*Improvements to IPSAS* October 2018
32D	New	IPSAS 44 May 2022
32E	New	IPSAS 46 May 2023
32F	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
33	Amended	IPSAS 33 November 2025

IPSAS 34, *SEPARATE FINANCIAL STATEMENTS*

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International Public Sector Accounting Standard 34, *Separate Financial Statements*, is set out in paragraphs 1–34. All the paragraphs have equal authority. IPSAS 34 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities***.** IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.**

3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards (IPSAS).

4. [Deleted]

5. [Deleted]

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

   Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

   Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 41, *Financial Instruments* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures.*

   Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in IPSAS 35, *Consolidated Financial Statements,* IPSAS 36, *Investments in Associates and Joint Ventures* or IPSAS 37, *Joint Arrangements*: associate, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by IPSAS 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 9–10.

8. The financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.

9. An entity that is exempted in accordance with paragraph 5 of IPSAS 35, from consolidation or paragraph 23 of IPSAS 36, from applying the equity method may present separate financial statements as its only financial statements.

10. An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 56 of IPSAS 35, presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11. **Separate financial statements shall be prepared in accordance with all applicable IPSAS, except as provided in paragraph 12.**

12. **When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either:**

    (a) **At cost;**

    (b) **In accordance with IPSAS 41; or**

    (c) **Using the equity method as described in IPSAS 36.**

    The entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method shall be accounted for in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with IPSAS 41 is not changed in such circumstances.

13. **If an entity elects, in accordance with paragraph 24 of IPSAS 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with IPSAS 41, it shall also account for those investments in the same way in its separate financial statements.**

14. **If a controlling entity is required, in accordance with paragraph 56 of IPSAS 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29 (or IPSAS 41 when an entity applies that Standard), it shall also account for that investment in the same way in its separate financial statements. A controlling entity that is not itself an investment entity, shall measure its investments in a controlled investment entity in accordance with paragraph 12 in its separate financial statements.**

15. **When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:**

    (a) **When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.**

    (b) **When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 41. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognized as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognized directly in net assets/equity in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.**

16. **Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognized in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognized in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognized as a reduction from the carrying amount of the investment.**

17. **When a controlling entity reorganizes the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:**

    (a) **The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;**

    (b) **The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganization; and**

    (c) **The owners of the original controlling entity before the reorganization have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganization;**

    and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 12(a) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganization.

18. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 17. The requirements in paragraph 17 apply equally to such reorganizations. In such cases, references to “original controlling entity” and “original economic entity” are to the “original entity”.

Disclosure

19. **An entity shall apply all applicable IPSAS when providing disclosures in its separate financial statements, including the requirements in paragraphs 20–23.**

20. **When a controlling entity, in accordance with paragraph 5 of IPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**

    (a) **The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with IPSAS have been produced for public use; and the address where those consolidated financial statements are obtainable.**

    (b) **A list of significant investments in controlled entities, joint ventures and associates, including:**

        (i) **The name of those controlled entities, joint ventures and associates.**

        (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).**

        (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

    (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

21. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by IPSAS 38, *Disclosure of Interests in Other Entities.***

22. **If a controlling entity that is not itself an investment entity is required to apply the requirements of paragraph 58 of IPSAS 35, it shall disclose its accounting policy choice for measuring its investment in the investment entity in its separate financial statements, and present the disclosures relating to investment entities required by IPSAS 38.**

23. **When a controlling entity (other than a controlling entity covered by paragraphs 20–21) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor shall identify the financial statements prepared in accordance with IPSAS 35, IPSAS 36 or IPSAS 37, to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:**

(a) **The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority.**

(b) **A list of significant controlled entities, joint ventures and associates, including:**

(i) **The name of those controlled entities, joint ventures and associates.**

(ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity).**

(iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

(c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

Current Value Measurement

23A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For investments that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

23B. To meet the objectives in paragraph 23A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 23A, an entity shall disclose additional information necessary to meet those objectives.

23C. To meet the objectives in paragraph 23A, an entity shall disclose, at a minimum, the following information for each class of investments (see paragraph 23D for information on determining appropriate classes of

investments) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) The fair value measurement at the end of the reporting period;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For investments held at the end of the reporting period that are measured at fair value, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into each level shall be disclosed and discussed separately from transfers out of each level;

(d) For fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

  (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

  (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized;

  (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately); and

  (iv) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 23E). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those investments held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(h) For fair value measurements categorized within Level 3 of the fair value hierarchy:

(i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d); and

(ii) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.

23D. An entity shall determine the appropriate disaggregation of investments on the basis of the following:

(a) The nature, characteristics and risks of the investments; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized, or whether the fair value is observable or unobservable.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of investments for which disclosures about fair value measurements should be provided requires judgment. Investments will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an investments, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

23E. An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 23C(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

(a) The date of the event or change in circumstances that caused the transfer;

(b) The beginning of the reporting period; and

(c) The end of the reporting period.

23F. If an entity makes an accounting policy decision to use the exception in paragraph AG143 of IPSAS 41, it shall disclose that fact.

23G. For each class of investments not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 23C(b), (d) and (h). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value

measurements estimated using unobservable inputs, required by paragraph 23C(d). For such investments, an entity does not need to provide the other disclosures required by this Standard.

23H. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Transitional Provisions

24. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit at the beginning of the immediately preceding period for any difference between:**

(a) **The previous carrying amount of the investment; and**

(b) **The fair value of the investor's investment in the controlled entity.**

25. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value directly to net assets/equity shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognized in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.**

26. **At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with IPSAS 41, as permitted in paragraph 12.**

27. **An investment entity shall use the fair value amounts previously reported to investors or to management.**

28. **If measuring the investment in the controlled entity in accordance with paragraphs 24–27 is impracticable (as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs 24–27 is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the controlled entity is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/equity at the beginning of the immediately preceding period for any difference between:**

(a) **The previous carrying amount of the investment; and**

(b) **The fair value of the investor's investment in the controlled entity.**

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.

29. **If an investment entity has disposed of, or lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that investment.**

30. **At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph 58 of IPSAS 35, to measure its investment in a controlled**

investment entity at fair value through surplus or deficit in accordance with IPSAS 41, shall use the transitional provisions in paragraphs 24–29 in accounting for its investment in the controlled investment entity in its separate financial statements.

31. The transitional provisions for changes in the accounting, in an entity's separate financial statements, for its interest in a joint operation are set out in IPSAS 37, *Joint Arrangements.*

Effective Date

32. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 35, IPSAS 36, IPSAS 37, and IPSAS 38 at the same time.**

32A. **Paragraphs 4 and 5 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

32B. **Paragraphs 6, 12, 13, 14, 15, 22, 26 and 30 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

32C. **Paragraphs 14, 22 and 30 were amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2019, it shall disclose that fact.**

32D. **Paragraph 12 was amended by IPSAS 44 issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

32E. **Paragraphs 23A–23H were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

32F. **Paragraphs 23A, and 23C(a)-23C(h) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

33. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal and Replacement of IPSAS 6 (December 2006)

34. This Standard is issued concurrently with IPSAS 35. Together, the two Standards supersede IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006). IPSAS 6 remains applicable until IPSAS 34 and IPSAS 35 are applied or become effective, whichever is earlier.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 34.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 34. As this Standard is based on IAS 27, *Separate Financial Statements* (Amended in 2011, including amendments up to December 31, 2014), issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where IPSAS 34 departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 48, *Separate Financial Statements*, was based on IAS 27 *Separate Financial Statements* (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 6*, Consolidated and Separate Financial Statements*. In January 2015 the IPSASB issued five new IPSAS, including IPSAS 34. These new IPSAS supersede IPSAS 6, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures*.

Use of the Equity Method in Separate Statements

BC3. IPSAS 6 permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:

(a) Using the equity method;

(b) At cost; or

(c) As a financial instrument in accordance with IPSAS 41.

BC4. The IPSASB noted that in 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the option to use the equity method. The IPSASB noted that the reasons given by the IASB for making this change included the following:

(a) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and

(b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.

BC5. The IPSASB also noted that, at the time it issued ED 48, the IASB had signaled its intention to reconsider the use of the equity method in separate financial statements. In deciding to reconsider this issue the IASB acknowledged that corporate law in some countries requires that the equity method of accounting be used to measure certain investments when presenting separate financial statements.

BC6. The IPSASB decided to continue to permit the use of the equity method in separate financial statements for the following reasons:

(a) The equity method is a well-established method of accounting for certain investments in the public sector. In many circumstances where investments are held by public sector entities, the equity method

can provide information that is reliable[1] and useful, and possibly at a lower cost than either the cost method or the fair value method. In the public sector, investment entities are often used more as "instruments" to enable service provision, rather than as a holding for investment purposes, as might generally be the case in the private sector. The equity method may therefore, in some circumstances, be better suited to meeting user needs in the public sector, as it allows the financial statements to portray the fluctuations in the equity of, and performance by, an investment over time, in a cost effective and easily understood manner.

(b) Although application of the cost method is often relatively straightforward, where investments have been held for some time, using the cost method may result in outdated and less relevant information, in which case, it would not meet user needs.

(c) In the public sector there is likely to be a higher proportion of investments for which there are no active markets and in respect of which fair values are not readily observable. Although the guidance in IPSAS 41 can be used to derive a value for such investments, the IPSASB considered that this approach would generally result in information that did not faithfully represent the underlying circumstances

BC7. A majority of the respondents to ED 48 supported the proposal to permit the use of the equity method in separate financial statements. A further group of respondents also supported this proposal, subject to the IASB reinstating the use of the equity method in separate financial statements. In August 2014 the IASB issued the *Equity Method in Separate Financial Statements (Amendments to IAS 27),* which reinstated the equity method as an option in separate financial statements. The IPSASB noted the support it had received for this proposal and the reinstatement of the equity method in IAS 27, and agreed to continue to permit the use of the equity method in separate financial statements.

Separate Financial Statements of Investment Entities

BC8. In developing IPSAS 35 the IPSASB decided to introduce the concept of investment entities and to require that a controlling entity that is an investment entity measure its investments in most controlled entities at fair value through surplus or deficit in accordance with IPSAS 41. Consequently, the IPSASB decided to require that an investment entity measure its investments in controlled entities at fair value through surplus or deficit in its separate financial statements. The IPSASB also decided that an investment entity preparing separate financial statements as its only financial statements, should also make the disclosures required in IPSAS 38 about its interests in controlled entities.

BC9. The IPSASB also decided to require a controlling entity of an investment entity that is not itself an investment entity to present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 41 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity. Consequently, the IPSASB decided to require that a non-investment controlling entity should measure its investment in a controlled investment entity in the same way in its separate financial statements.

Revision of IPSAS 34 as a result of Improvements to IPSAS, 2018

BC9A. Following the issue of IPSAS 34 the IPSASB became aware that the requirements in paragraphs 14 and 30 (which referred to the consolidation of certain balances of a controlled investment entity in separate financial statements) needed to be amended, as a controlling entity does not consolidate items in its separate financial statements. The IPSASB decided to permit a controlling entity that is not itself an investment entity to

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

measure its investments in a controlled investment entity in accordance with paragraph 12 of IPSAS 34 in its separate financial statements. The IPSASB gave effect to this amendment in *Improvements to IPSAS*, 2018.

Revision of IPSAS 34 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC10. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 34 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC11. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC12. In August 2024, the IPSASB published ED 90, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC13. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC14. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

COMPARISON WITH IAS 27 (AMENDED IN 2011)

IPSAS 34, *Separate Financial Statements*, is drawn primarily from IAS 27, *Separate Financial Statements* (Amended in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments.* References to IFRS 9 in the underlying IASB standard have therefore been replaced by references to the IPSAS dealing with financial instruments.

The main differences between IPSAS 34 and IAS 27 (Amended in 2011) are as follows:

- IPSAS 34 uses different terminology, in certain instances, from IAS 27 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity”, “revenue”. The equivalent terms in IAS 27 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 34 contains specific requirements for a controlling entity that is not itself an investment entity but which has an investment in a controlled investment entity. IAS 27 (Amended in 2011) does not specify different requirements for such controlling entities because it requires that such investments be consolidated.

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IPSAS 35, *CONSOLIDATED FINANCIAL STATEMENTS*

Acknowledgment

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IPSAS 35, *CONSOLIDATED FINANCIAL STATEMENTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 35, *Consolidated Financial Statements* was issued in January 2015.

Since then, IPSAS 35 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in IPSAS 35

Paragraph Affected	How Affected	Affected By
4	Amended	IPSAS 40 January 2017
6	Amended	IPSAS 39 July 2016
8	Amended	*The Applicability of IPSAS* April 2016
11	Deleted	*The Applicability of IPSAS* April 2016
12	Deleted	*The Applicability of IPSAS* April 2016
13	Deleted	*The Applicability of IPSAS* April 2016
22	Amended	IPSAS 41 August 2018
40	Amended	IPSAS 40 January 2017
45	Amended	IPSAS 41 August 2018
52	Amended	IPSAS 40 January 2017 IPSAS 41 August 2018
55A	Amended	IPSAS 40 January 2017 IPSAS 41 August 2018
56	Amended	IPSAS 40 January 2017 IPSAS 41 August 2018
57	Amended	IPSAS 40 January 2017
58	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
63	Amended	IPSAS 40 January 2017
79A	New	*The Applicability of IPSAS* April 2016
79B	New	IPSAS 39 July 2016
79C	New	IPSAS 40 January 2017
79D	New	IPSAS 40 January 2017
79E	Amended	*COVID-19: Deferral of Effective Dates* November 2020
79F	New	IPSAS 47 May 2023
80	Amended	IPSAS 33 November 2025
AG13	Amended	IPSAS 47 May 2023
AG105	Amended	IPSAS 41 August 2018

IPSAS 35, *CONSOLIDATED FINANCIAL STATEMENTS*

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International Public Sector Accounting Standard 35, *Consolidated Financial Statements*, is set out in paragraphs 1–81. All the paragraphs have equal authority. IPSAS 35 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;

   (b) Defines the principle of control, and establishes control as the basis for consolidation;

   (c) Sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;

   (d) Sets out the accounting requirements for the preparation of consolidated financial statements; and

   (e) Defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the preparation and presentation of consolidated financial statements for the economic entity.**

Public Sector Combinations

4. This Standard does not deal with the accounting requirements for public sector combinations and their effect on consolidation, including goodwill arising on a public sector combination (see IPSAS 40, *Public Sector Combinations*).

Presentation of Consolidated Financial Statements

5. **An entity that is a controlling entity shall present consolidated financial statements. This Standard applies to all entities, except that a controlling entity need not present consolidated financial statements if it meets all the following conditions:**

   (a) **It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;**

   (b) **Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**

   (c) **It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and**

   (d) **Its ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with International Public Sector Accounting Standards (IPSAS), in which controlled entities are consolidated or are measured at fair value through surplus or deficit in accordance with this Standard.**

6. This Standard does not apply to post-employment benefit plans or other long-term employee benefit plans to which IPSAS 39, *Employee Benefits* applies.

7. **A controlling entity that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 56 of this Standard, to measure all of its controlled entities at fair value through surplus or deficit.**

8. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of commercial public sector entities with entities in the budget sector. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, the disclosures required by IPSAS 18, *Segment Reporting*, help to explain the significance of different activities within the economic entity.

9. The exemption from preparing consolidated financial statements in paragraph 5 does not apply where the information needs of a controlled entity's users would not be met by the consolidated financial statements of its controlling entity. For example, consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions there are legislated financial reporting requirements intended to address the information needs of such users.

10. An entity may be required, (for example, by legislation, or by external users) to prepare aggregated financial statements which are for a different economic entity than that required by this Standard. Although such financial statements fall outside the scope of this Standard and would not comply with the requirements in this Standard, an entity could use the guidance in this Standard in the preparation of such aggregated financial statements.

Government Business Enterprises

11. [Deleted]

12. [Deleted]

13. [Deleted]

Definitions

14. **The following terms are used in this Standard with the meanings specified:**

Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

A controlled entity is an entity that is controlled by another entity.

A controlling entity is an entity that controls one or more entities.

A decision-maker is an entity with decision-making rights that is either a principal or an agent for other parties.

An economic entity is a controlling entity and its controlled entities.

An investment entity is an entity that:

(a) **Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;**

(b) **Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and**

(c) **Measures and evaluates the performance of substantially all of its investments on a fair value basis.**

A non-controlling interest is net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.

Power consists of existing rights that give the current ability to direct the relevant activities of another entity.

Protective rights are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

Relevant activities: For the purpose of this Standard, relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

Removal rights are rights to deprive the decision maker of its decision-making authority.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the Glossary of Defined Terms published separately. The following terms are defined in either IPSAS 36, *Investments in Associates and Joint Ventures,* IPSAS 37, *Joint Arrangements,* or IPSAS 38, *Disclosure of Interests in Other Entities*: associate, interest in another entity, joint venture and significant influence.

Binding Arrangement

15. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between the parties.

Economic Entity

16. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. An economic entity may include entities with both social policy and commercial objectives.

17. The determination of the economic entity will need to be made having regard to the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements. Such consolidated financial statements are commonly referred to as whole-of-government financial statements.

Control (see paragraphs AG2–AG87)

18. **An entity, regardless of the nature of its involvement with another entity, shall determine whether it is a controlling entity by assessing whether it controls the other entity.**

19. **An entity controls another entity when it is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.**

20. **Thus, an entity controls another entity if and only if the entity has all the following:**

    (a) **Power over the other entity (see paragraphs 23–29);**

    (b) **Exposure, or rights, to variable benefits from its involvement with the other entity (see paragraphs 30–34); and**

    (c) **The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs 35–37).**

21. **An entity shall consider all facts and circumstances when assessing whether it controls another entity. The entity shall reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20 (see paragraphs AG82–AG87).**

22. Two or more entities collectively control another entity when they must act together to direct the relevant activities. In such cases, because no single entity can direct the activities without the co-operation of the others, no single entity controls the other entity. Each entity would account for its interest in the other entity in accordance with the relevant IPSAS, such as IPSAS 36, IPSAS 37, or the IPSAS dealing with financial instruments (IPSAS 28, *Financial Instruments: Presentation*, IPSAS 30, *Financial Instruments: Disclosures*, and IPSAS 41, *Financial Instruments*).

Power

23. An entity has power over another entity when the entity has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity. The right to direct the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity and is frequently the way in which power is demonstrated in the public sector.

24. Power arises from rights. In some cases assessing power is straightforward, such as when power over another entity is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. However, public sector entities often obtain power over another entity from rights other than voting rights. They may also obtain power over another entity without having an equity instrument providing evidence of a financial investment. An entity may have rights conferred by binding arrangements. These rights may give an entity power to require the other entity to deploy assets or incur liabilities in a way that affects the nature or amount of benefits received by the first-mentioned entity. The assessment of whether such rights give rise to power over another entity may be complex and require more than one factor to be considered.

25. An entity can have power over another entity even if it does not have responsibility for the day-to-day operation of the other entity or the manner in which prescribed functions are performed by that other entity. Legislation may give statutory bodies or statutory officers powers to carry out their functions independently of government. For example, the Auditor-General and Government Statistician usually have statutory powers to obtain information and publish reports without recourse to government and the judiciary often has special powers to give effect to the concept of judicial independence. Legislation may also set out the broad

parameters within which the statutory body is required to operate, and result in the statutory body operating in a manner consistent with the objectives set by Parliament or a similar body. The existence of statutory powers to operate independently does not, of itself, preclude an entity having the ability to direct the operating and financial policies of another entity with statutory powers so as to obtain benefits. For example, the independence of a central bank in relation to monetary policy does not preclude the possibility of the central bank being controlled. All facts and circumstances would still need to be considered.

26. The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:

    (a) Regulatory control (see paragraph AG12); or

    (b) Economic dependence (see paragraphs AG41–AG42).

27. An entity with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the entity has been directing the relevant activities of the entity being assessed for control can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over the entity being assessed for control. In the case of an entity established with predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established.

28. If two or more entities each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the nature or amount of benefits from that entity has power over that other entity.

29. An entity can have power over an entity being assessed for control even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has significant influence. However, an entity that holds only protective rights does not have power over another entity (see paragraphs AG29–AG31), and consequently does not control the other entity.

Benefits

30. An entity is exposed, or has rights, to variable benefits from its involvement with an entity being assessed for control when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance. Entities become involved with other entities with the expectation of positive financial or non-financial benefits over time. However, in a particular reporting period, the actual impact of an entity's involvement with the entity being assessed for control can be only positive, only negative or a mix of both positive and negative.

31. The entity's benefits from its involvement with the entity being assessed for control can be only financial, only non-financial or both financial and non-financial. Financial benefits include returns on investment such as dividends or similar distributions and are sometimes referred to as "returns". Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Non-financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. For example, an entity may obtain benefits when another entity with congruent activities provides services that the first entity would have otherwise been obliged to provide. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).

32. The following examples illustrate financial benefits that an entity may receive from its involvement with another entity:

(a) Dividends, variable interest on debt securities, other distributions of economic benefits;

(b) Exposure to increases or decreases in the value of an investment in another entity;

(c) Exposure to loss from agreements to provide financial support, including financial support for major projects;

(d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);

(e) Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and

(f) Other exposures to variable benefits that are not available to other entities.

33. Examples of non-financial benefits include:

(a) The ability to benefit from the specialized knowledge of another entity;

(b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;

(c) Improved outcomes;

(d) More efficient delivery of outcomes;

(e) More efficient or effective production and delivery of goods and services;

(f) Having an asset and related services available earlier than otherwise would be the case; and

(g) Having a higher level of service quality than would otherwise be the case.

34. Although only one entity can control another entity, more than one party can share in the benefits of that other entity. For example, holders of non-controlling interests can share in the financial benefits such as surpluses or distributions from an entity or the non-financial benefits such as congruence of activities with desired outcomes.

Link between Power and Benefits

35. An entity controls another entity if the entity not only has power over the entity being assessed for control and exposure or rights to variable benefits from its involvement with the other entity, but also has the ability to use its power to affect the nature or amount of the benefits from its involvement with the entity being assessed for control.

36. The existence of congruent objectives alone is insufficient for an entity to conclude that it controls another entity. In order to have control the entity would also need to have the ability to use its power over the entity being assessed for control to direct that other entity to work with it to further its objectives.

37. **An entity with decision-making rights shall determine whether it is a principal or an agent. An entity shall also determine whether another entity with decision-making rights is acting as an agent for the entity. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the other entity when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal.**

Accounting Requirements

38. **A controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.**

39. **Consolidation of a controlled entity shall begin from the date the entity obtains control of the other entity and cease when the entity loses control of the other entity.**

Consolidation Procedures

40. Consolidated financial statements:

    (a) Combine like items of assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity with those of its controlled entities.

    (b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity (IPSAS 40 explains how to account for any related goodwill).

    (c) Eliminate in full intra-economic entity assets, liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full). Intra-economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements.

Uniform Accounting Policies

41. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that member's financial statements in preparing the consolidated financial statements to ensure conformity with the economic entity's accounting policies.

Measurement

42. An entity includes the revenue and expenses of a controlled entity in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the controlled entity. Revenue and expenses of the controlled entity are based on the amounts of the assets and liabilities recognized in the consolidated financial statements at the acquisition date. For example, depreciation expense recognized in the consolidated statement of financial performance after the acquisition date is based on the values of the related depreciable assets recognized in the consolidated financial statements at the acquisition date.

Potential Voting Rights

43. When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of surplus or deficit and changes in net assets/equity allocated to the controlling entity and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives, unless paragraph 44 applies.

44. In some circumstances an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the benefits associated with an ownership interest. In such circumstances, the proportion allocated to the controlling entity and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the benefits.

45. IPSAS 28 and IPSAS 41 do not apply to interests in controlled entities that are consolidated. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in a controlled entity, the instruments are not subject to the requirements of IPSAS 28 and IPSAS 41. In all other cases, instruments containing potential voting rights in a controlled entity are accounted for in accordance with IPSAS 28 and IPSAS 41.

Reporting Dates

46. **The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as at the same reporting date. When the end of the reporting period of the controlling entity is different from that of a controlled entity, the controlling entity either:**

    (a) **Obtains, for consolidation purposes, additional financial information as of the same date as the financial statements of the controlling entity; or**

    (b) **Uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.**

Non-Controlling Interests

47. **A controlling entity shall present non-controlling interests in the consolidated statement of financial position within net assets/equity, separately from the net assets/equity of the owners of the controlling entity.**

48. Changes in a controlling entity's interest in a controlled entity that do not result in the controlling entity losing control of the controlled entity are transactions with owners in their capacity as owners.

49. **An entity shall attribute the surplus or deficit and each gain or loss recognized directly in net assets/equity to the owners of the controlling entity and to the non-controlling interests. The entity shall also attribute the total amount recognized in the statement of changes in net assets/equity to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.**

50. **If a controlled entity has outstanding cumulative preference shares that are classified as equity instruments and are held by non-controlling interests, the entity shall compute its share of surplus or deficit after adjusting for the dividends on such shares, whether or not such dividends have been declared.**

Changes in the Proportion held by Non-Controlling Interests

51. **When the proportion of the net assets/equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the controlled entity. The entity shall recognize directly in net assets/equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the controlling entity.**

Loss of Control

52. **If a controlling entity loses control of a controlled entity, the controlling entity:**

    (a) **Derecognizes the assets and liabilities of the former controlled entity from the consolidated statement of financial position;**

    (b) **Recognizes any investment retained in the former controlled entity and subsequently accounts for it and for any amounts owed by or to the former controlled entity in accordance with relevant IPSAS. That retained interest is remeasured, as described in paragraphs 54(b)(iii) and 55A. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IPSAS 41 or the cost on initial recognition of an investment in an associate or joint venture, if applicable; and**

(c) **Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs 54–55A.**

53. **A controlling entity might lose control of a controlled entity in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a controlling entity shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the controlling entity should account for the multiple arrangements as a single transaction:**

(a) **They are entered into at the same time or in contemplation of each other.**

(b) **They form a single transaction designed to achieve an overall commercial effect.**

(c) **The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.**

(d) **One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of an investment is priced below market and is compensated for by a subsequent disposal priced above market.**

54. **If a controlling entity loses control of a controlled entity, it shall:**

(a) **Derecognize:**

(i) **The assets (including any goodwill) and liabilities of the controlled entity at their carrying amounts at the date when control is lost; and**

(ii) **The carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost (including any gain or loss recognized directly in net assets/equity attributable to them).**

(b) **Recognize:**

(i) **The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;**

(ii) **If the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the controlled entity to owners in their capacity as owners, that distribution; and**

(iii) **Any investment retained in the former controlled entity at its fair value at the date when control is lost.**

(c) **Transfer directly to accumulated surplus/deficit, if required by other IPSAS, the amounts recognized directly in net assets/equity in relation to the controlled entity on the basis described in paragraph 55.**

(d) **Recognize any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity.**

55. **If a controlling entity loses control of a controlled entity, the controlling entity shall account for all amounts previously recognized directly in net assets/equity in relation to that controlled entity on the same basis as would be required if the controlling entity had directly disposed of the related assets or liabilities. If a revaluation surplus previously recognized directly in net assets/equity would be transferred directly to accumulated surplus/deficit on the disposal of the asset, the controlling entity**

shall transfer the revaluation surplus directly to accumulated surplus/deficit when it loses control of the controlled entity.

55A. **If a controlling entity loses control of a controlled entity that does not contain an operation, as defined in IPSAS 40, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the controlling entity determines the gain or loss in accordance with paragraphs 54–55. The gain or loss resulting from the transaction is recognized in the controlling entity's surplus or deficit only to the extent of the unrelated investors' interests in that associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment in that associate or joint venture. In addition, if the controlling entity retains an investment in the former controlled entity and the former controlled entity is now an associate or a joint venture that is accounted for using the equity method, the controlling entity recognizes the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former controlled entity in its surplus or deficit only to the extent of the unrelated investors' interests in the new associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former controlled entity. If the controlling entity retains an investment in the former controlled entity that is now accounted for in accordance with IPSAS 41, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in the former controlled entity is recognized in full in the controlling entity's surplus or deficit.**

Investment Entities: Fair Value Requirement

56. **Except as described in paragraph 57, an investment entity shall not consolidate its controlled entities or apply IPSAS 40 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 41.**

57. **Notwithstanding the requirement in paragraph 56, if an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs AG98–AG100), it shall consolidate that controlled entity in accordance with paragraphs 38–55 of this Standard and apply the requirements of IPSAS 40 to the acquisition of any such controlled entity.**

58. **A controlling entity of an investment entity that is not itself an investment entity shall present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 41 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with paragraphs 38–55 of this Standard.**

Determining Whether an Entity is an Investment Entity

59. **An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs AG89–AG106 describe aspects of the definition of an investment entity in more detail. If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, a controlling entity shall reassess whether it is an investment entity.**

60. **A controlling entity that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs 63–64).**

Judgments and Assumptions

61. **An investment entity shall disclose the information required by paragraph 15 of IPSAS 38 about significant judgments and assumptions made in determining that it is an investment entity unless it has all of the following characteristics:**

    (a) **It has obtained funds from more than one investor (see paragraphs AG89–AG90);**

    (b) **It has ownership interests in the form of equity or similar interests (see paragraphs AG91–AG92); and**

    (c) **It has more than one investment (see paragraphs AG96–AG97).**

62. The absence of any of these characteristics does not necessarily disqualify an entity from being classified as an investment entity. However, the absence of any of these characteristics means that an entity is required to disclose information about the significant judgments and assumptions made in determining that it is an investment entity.

Accounting for a Change in Investment Entity Status

63. **When an entity ceases to be an investment entity, it shall apply IPSAS 40 to any controlled entity that was previously measured at fair value through surplus or deficit in accordance with paragraph 56. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All controlled entities shall be consolidated in accordance with paragraphs 38–51 of this Standard from the date of change of status.**

64. **When an entity becomes an investment entity, it shall cease to consolidate its controlled entities at the date of the change in status, except for any controlled entity that shall continue to be consolidated in accordance with paragraph 57. The investment entity shall apply the requirements of paragraphs 52 and 53 to those controlled entities that it ceases to consolidate as though the investment entity had lost control of those controlled entities at that date.**

Transitional Provisions

65. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 66–78.**

66. **Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this Standard is first applied an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the date of initial application of this Standard (the "immediately preceding period"). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.**

67. For the purposes of this Standard, the date of initial application is the beginning of the annual reporting period for which this Standard is applied for the first time.

68. At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

    (a) Entities that would be consolidated at that date in accordance with IPSAS 6, *Consolidated and Separate Financial Statements*, and are still consolidated in accordance with this Standard; or

    (b) Entities that would not be consolidated at that date in accordance with IPSAS 6, and are not consolidated in accordance with this Standard.

69. **At the date of initial application, an entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it shall apply the requirements of paragraphs 70–73 instead of paragraphs 77–78.**

70. **Except for any controlled entity that is consolidated in accordance with paragraph 57 (to which paragraph 68 or paragraphs 77–78, whichever is relevant, apply), an investment entity shall measure its investment in each controlled entity at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and net assets/equity at the beginning of the immediately preceding period for any difference between:**

(a) **The previous carrying amount of the controlled entity; and**

(b) **The fair value of the investment entity's investment in the controlled entity.**

The cumulative amount of any fair value adjustments previously recognized directly in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.

71. **An investment entity shall use the fair value amounts that were previously reported to investors or to management.**

72. **If measuring an investment in a controlled entity in accordance with paragraph 70 is impracticable (as defined in IPSAS 3), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph 70 is practicable, which may be the current period. The investor shall retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to net assets/equity shall be recognized at the beginning of the current period.**

73. If an investment entity has disposed of, or has lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that controlled entity.

74. **If, at the date of initial application, an entity concludes that it shall consolidate another entity that was not consolidated in accordance with IPSAS 6, the entity shall measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that other entity had been consolidated from the date when the entity obtained control of that other entity on the basis of the requirements of this Standard. The entity shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:**

(a) **The amount of assets, liabilities and non-controlling interests recognized; and**

(b) **The previous carrying amount of the entity's involvement with the other entity.**

75. **If measuring a controlled entity's assets, liabilities and non-controlling interests in accordance with paragraph 74(a) or (b) is impracticable (as defined in IPSAS 3), an entity shall measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that entity had been consolidated from the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.**

76. **The entity shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the deemed acquisition date is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:**

(a) **The amount of assets, liabilities and non-controlling interests recognized; and**

(b) **The previous carrying amounts of the entity's involvement with the other entity.**

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.

77. **If, at the date of initial application, an entity concludes that it will no longer consolidate an entity that was consolidated in accordance with IPSAS 6, the entity shall measure its interest in the other entity at the amount at which it would have been measured if the requirements of this Standard had been effective when the entity became involved with, or lost control of, the other entity. The entity shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that the entity became involved with (but did not obtain control in accordance with this Standard), or lost control of, the other entity is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:**

(a) **The previous carrying amount of the assets, liabilities and non-controlling interests; and**

(b) **The recognized amount of the entity's interest in the other entity.**

78. **If measuring the interest in the other entity in accordance with paragraph 77 is impracticable (as defined in IPSAS 3), an entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph 77 is practicable, which may be the current period. The entity shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that the entity became involved with (but did not obtain control in accordance with this Standard), or lost control of, the other entity is earlier than the beginning of the immediately preceding period, the entity shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:**

(a) **The previous carrying amount of the assets, liabilities and non-controlling interests; and**

(b) **The recognized amount of the entity's interest in the other entity.**

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period.

Effective Date

79. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, *Separate Financial Statements,* IPSAS 36, IPSAS 37, and IPSAS 38 at the same time.**

79A. **Paragraphs 11, 12 and 13 were deleted and paragraph 8 was amended by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

79B. **Paragraph 6 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018 it shall disclose that fact and apply IPSAS 39 at the same time.**

79C. **Paragraphs 4, 40, 56, 57 and 63 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

79D. **Paragraph 52 was amended and paragraph 55A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.**

79E. **Paragraphs 22, 45, 52, 55A, 56, 58 and AG105 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

79F. **Paragraph AG13 was amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

80. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal and Replacement of IPSAS 6 (December 2006)

81. This Standard is issued concurrently with IPSAS 34. Together, the two Standards supersede IPSAS 6 (December 2006). IPSAS 6 remains applicable until IPSAS 34 and IPSAS 35 are applied or become effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 35.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 35, *Consolidated Financial Statements*.

Assessing Control

AG2. To determine whether it controls another entity an entity shall assess whether it has all the following:

(a) Power over the other entity;

(b) Exposure, or rights, to variable benefits from its involvement with the other entity; and

(c) The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity.

AG3. Consideration of the following factors may assist in making that determination:

(a) The purpose and design of the other entity (see paragraphs AG5–AG8);

(b) What the relevant activities are and how decisions about those activities are made (see paragraphs AG13–AG15);

(c) Whether the rights of the entity give it the current ability to direct the relevant activities of the other entity (see paragraphs AG16–AG56);

(d) Whether the entity is exposed, or has rights, to variable benefits from its involvement with the other entity (see paragraph AG57–AG58); and

(e) Whether the entity has the ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs AG60–AG74).

AG4. When assessing whether it controls another entity, an entity shall consider the nature of its relationship with other parties (see paragraphs AG75–AG77).

Purpose and Design of another Entity

AG5. An entity shall consider the purpose and design of the entity being assessed for control in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who benefits from those activities.

AG6. When the purpose and design of the entity being assessed for control are considered, it may be clear that the entity being assessed for control is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the operating and financing policies of the entity being assessed for control (see paragraphs AG32–AG52). In the most straightforward case, the entity that holds a majority of those voting rights, in the absence of any other factors, controls the other entity.

AG7. To determine whether an entity controls another entity in more complex cases, it may be necessary to consider some or all of the other factors in paragraph AG3.

AG8. Voting rights may not be the dominant factor in deciding who controls the entity being assessed for control. If there are voting rights they may be limited in scope. The relevant activities of the entity being assessed for

control may be directed by means of binding arrangements or provisions in founding documents such as articles of association or a constitution. In such cases, an entity's consideration of the purpose and design of the entity being assessed for control shall also include consideration of the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and whether the entity is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

Power

AG9. To have power over another entity, an entity must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered (see paragraphs AG25–AG31).

AG10. The determination about whether an entity has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights of the entity and other entities in relation to the potentially controlled entity.

AG11. An entity normally will have power over an entity that it has established when the constituting document or enabling legislation specifies the operating and financing activities that are to be carried out by that entity. However, the impact of the constituting document or legislation is evaluated in the light of other prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an entity has power over another entity. For example, a government may not have power over a research and development corporation that operates under a mandate created, and limited, by legislation if that or other legislation assigns power to direct the relevant activities to other entities that are not controlled by the government.

Regulatory Control

AG12. Regulatory control does not usually give rise to power over an entity for the purposes of this Standard. Governments and other public sector bodies, including supranational bodies, may have wide ranging powers to establish the regulatory framework within which entities operate, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, governments and other public sector bodies may enact regulations to protect the health and safety of the community, restrict the sale or use of dangerous goods or specify the pricing policies of monopolies. However, when regulation is so tight as to effectively dictate how the entity performs its business, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity.

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Using assets and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue;

(d) Selling and purchasing of goods or services;

(e) Managing physical assets;

(f) Managing financial assets during their life (including upon default);

(g) Selecting, acquiring or disposing of assets;

(h) Managing a portfolio of liabilities;

(i) Researching and developing new products or processes; and

(j) Determining a funding structure or obtaining funding.

AG14. Examples of decisions about relevant activities include but are not limited to:

(a) Establishing operating and capital decisions of an entity, including budgets; and

(b) Appointing and remunerating an entity's key management personnel or service providers and terminating their services or employment.

AG15. In some situations, activities both before and after a particular set of circumstances arises or event occurs, may be relevant activities. When two or more entities have the current ability to direct relevant activities and those activities occur at different times, those entities shall determine which entity is able to direct the activities that most significantly affect those benefits consistently with the treatment of concurrent decision-making rights (see paragraph 28). The entities concerned shall reconsider this assessment over time if relevant facts or circumstances change.

Rights that Give an Entity Power over another Entity

AG16. Power arises from rights. To have power over another entity, an entity must have existing rights that give the entity the current ability to direct the relevant activities of the other entity. The rights that may give an entity power can differ.

AG17. Examples of rights that, either individually or in combination, can give an entity power include but are not limited to:

(a) Rights to give policy directions to the governing body of another entity that give the holder the ability to direct the relevant activities of the other entity;

(b) Rights in the form of voting rights (or potential voting rights) of another entity (see paragraphs AG32–AG52);

(c) Rights to appoint, reassign or remove members of another entity's key management personnel who have the ability to direct the relevant activities;

(d) Rights to appoint or remove another entity that directs the relevant activities;

(e) Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity;

(f) Rights to direct the other entity to enter into, or veto any changes to, transactions for the benefit of the entity;

(g) Rights to veto key changes to the other entity, such as the sale of a major asset or of the other entity as a whole; and

(h) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

AG18. In considering whether it has power, an entity will need to consider the binding arrangements that are in place and the mechanism(s) by which it has obtained power. Ways in which an entity may have obtained power, either individually or in combination with other arrangements, include:

(a) Legislative or executive authority;

(b) Administrative arrangements;

(c) Contractual arrangements;

(d) Founding documents (for example, articles of association); and

(e) Voting or similar rights.

AG19. To determine whether an entity has rights sufficient to give it power, the entity shall also consider the purpose and design of the other entity (see paragraphs AG5–AG8) and the requirements in paragraphs AG53–AG56 together with paragraphs AG20–AG22.

AG20. In some circumstances it may be difficult to determine whether an entity's rights are sufficient to give it power over another entity. In such cases, to enable the assessment of power to be made, the entity shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs AG21 and AG22, may provide evidence that the entity's rights are sufficient to give it power over the other entity:

(a) The entity can, without having the contractual right to do so, appoint or approve the other entity's key management personnel who have the ability to direct the relevant activities;

(b) The entity can, without having the contractual right to do so, direct the other entity to enter into, or can veto any changes to, significant transactions for the benefit of the entity;

(c) The entity can dominate either the nominations process for electing members of the other entity's governing body or the obtaining of proxies from other holders of voting rights;

(d) The other entity's key management personnel are related parties of the entity (for example, the chief executive officer of the other entity and the chief executive officer of the entity are the same person); or

(e) The majority of the members of the other entity's governing body are related parties of the entity.

AG21. Sometimes there will be indications that the entity has a special relationship with the other entity, which suggests that the entity has more than a passive interest in the other entity. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, if an entity has more than a passive interest in another entity this may indicate that the entity has other related rights sufficient to give it power or provide evidence of existing power over another entity. For example, the following suggests that the entity has more than a passive interest in the other entity and, in combination with other rights, may indicate power:

(a) The relationship between the entity and the other entity's operations is one of dependence, such as in the following situations:

(i) The entity funds a significant portion of the other entity's operations and the other entity depends on this.

(ii) The entity guarantees a significant portion of the other entity's obligations, and the other entity depends on this.

(iii) The entity provides critical services, technology, supplies or raw materials to the other entity, and the other entity depends on this.

(iv) The entity controls assets such as licenses or trademarks that are critical to the other entity's operations and the other entity depends on this.

(v) The entity provides key management personnel to the other entity (for example, when the entity's personnel have specialized knowledge of the other entity's operations) and the other entity depends on this.

(b) A significant portion of the other entity's activities either involve or are conducted on behalf of the entity.

(c) The entity's exposure, or rights, to benefits from its involvement with the other entity is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an entity is entitled, or exposed, to more than half of the benefits of the other entity but holds less than half of the voting rights of the other entity.

AG22. Public sector entities often have special relationships with other parties as a result of the indicators listed in paragraph AG21. Public sector entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG41 to AG42.

AG23. The greater an entity's exposure, or rights, to variability of benefits from its involvement with another entity, the greater is the incentive for the entity to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of benefits is an indicator that the entity may have power. However, the extent of the entity's exposure does not, in itself, determine whether an entity has power over the other entity.

AG24. When the factors set out in paragraph AG20 and the indicators set out in paragraphs AG21–AG23 are considered together with an entity's rights, greater weight shall be given to the evidence of power described in paragraph AG20.

Substantive Rights

AG25. An entity, in assessing whether it has power, considers only substantive rights relating to another entity (held by the entity and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

AG26. Determining whether rights are substantive requires judgment, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:

(a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:

(i) Financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.

(ii) An exercise or conversion price that creates a financial barrier that would prevent (or deter) the holder from exercising its rights.

(iii) Terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.

(iv) The absence of an explicit, reasonable mechanism in the founding documents of another entity or in applicable laws or regulations that would allow the holder to exercise its rights.

(v) The inability of the holder of the rights to obtain the information necessary to exercise its rights.

(vi) Operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (e.g., the absence of other managers willing or able to provide specialized services or provide the services and take on other interests held by the incumbent manager).

(vii) Legal or regulatory requirements that limit the manner in which rights may be exercised or that prevent the holder from exercising its rights (e.g., where another entity has statutory powers which permit it to operate independently of the government or where a foreign entity is prohibited from exercising its rights).

(b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical

ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors (or other governing body) whose members are independent of the decision maker may serve as a mechanism for numerous entities (or other parties) to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors (or other governing body) are more likely to be substantive than if the same rights were exercisable individually by a large number of entities (or other parties).

(c) Whether the party or parties that hold the rights would benefit from the exercise of those rights. For example, the holder of potential voting rights in another entity (see paragraphs AG49–AG52) shall consider the exercise or conversion price of the instrument. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money or the entity would benefit for other reasons (e.g., by realizing synergies between the entity and the other entity) from the exercise or conversion of the instrument.

AG27. To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

AG28. Substantive rights exercisable by other parties can prevent an entity from controlling the entity being assessed for control, to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs AG29–AG31), substantive rights held by other parties may prevent the entity from controlling the entity being assessed for control even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

Protective Rights

AG29. In evaluating whether rights give an entity power over another entity, the entity shall assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of another entity or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs AG15 and AG55).

AG30. Because protective rights are designed to protect the interests of their holder without giving that party power over the entity to which those rights relate, an entity that holds only protective rights cannot have power or prevent another party from having power over the entity to which those rights relate (see paragraph 29).

AG31. Examples of protective rights include but are not limited to:

(a) A lender’s right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.

(b) The right of a party holding a non-controlling interest in an entity to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.

(c) The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

(d) The right of a regulator to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down activities of an entity that breaches environmental regulations.

(e) The right to remove members of the governing body of another entity under certain restricted circumstances. For example, a state government may be able to remove or suspend the chairman of a municipality and appoint an administrator if the municipality is unable to make timely decisions about key policies.

(f) The right of the government to remove tax deductibility for contributions to a not-for-profit entity if the entity significantly changes its objectives or activities.

(g) The right of an entity providing resources to a charity to demand that, if the charity were to be liquidated, the net assets of the charity would be distributed to an organization undertaking similar activities. (However, if the entity had the power to determine specifically to where the charity's net assets would be distributed upon liquidation, the entity would have substantive rights in relation to the charity).

Voting Rights

AG32. Where an entity has voting or similar rights in respect of another entity, an entity should consider whether those rights give it the current ability to direct the relevant activities of the other entity. An entity considers the requirements in this section (paragraphs AG33–AG52) in making that assessment.

Power with a Majority of the Voting Rights

AG33. An entity that holds more than half of the voting rights of another entity has power in the following situations, unless paragraph AG34 or paragraph AG35 applies:

(a) The relevant activities are directed by a vote of the holder of the majority of the voting rights; or

(b) A majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

Majority of the Voting Rights but no Power

AG34. For an entity that holds more than half of the voting rights of another entity, to have power over that other entity, the entity's voting rights must be substantive, in accordance with paragraphs AG25–AG28, and must provide the entity with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the entity making the assessment of control, the entity making the assessment of control does not have power over the other entity.

AG35. An entity does not have power over another entity, even though the entity holds the majority of the voting rights in the other entity, when those voting rights are not substantive. For example, an entity that has more than half of the voting rights in another entity cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

Power without a Majority of the Voting Rights

AG36. An entity can have power even if it holds less than a majority of the voting rights of another entity. An entity can have power with less than a majority of the voting rights of another entity, for example, through:

(a) The power to appoint or remove a majority of the members of the board of directors (or other governing body), and control of the other entity is by that board or by that body (see paragraph AG38);

(b) A binding arrangement between the entity and other vote holders (see paragraph AG39);

(c) Rights arising from other binding arrangements (see paragraph AG40);

(d) The entity's voting rights (see paragraphs AG37 and AG43–AG48);

(e) Potential voting rights (see paragraphs AG49–AG52); or

(f) A combination of (a)–(e).

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

AG37. An entity may have the right of decisive vote, thus to veto all other voting rights of another entity. This type of right is sometimes referred to as a “golden share”. Such special voting rights may give rise to power. Usually these rights are documented in the founding documents of the other entity (such as articles of association), and are designed to restrict the level of voting or other rights that may be held by certain parties. They may also give an entity veto powers over any major change in the other entity, such as the sale of a major asset or the sale of the other entity as a whole.

Control of the Board or Other Governing Body

AG38. An entity may have the power to appoint or remove a majority of the members of the board of directors (or other governing body) as a result of binding arrangements (including existing legislation, executive authority, regulation, contractual, or other arrangements).

Binding Arrangement with Other Vote Holders

AG39. A binding arrangement between an entity and other vote holders can give the entity the right to exercise voting rights sufficient to give the entity power, even if the entity does not have voting rights sufficient to give it power without the binding arrangement. However, a binding arrangement might ensure that the entity can direct enough other vote holders on how to vote to enable the entity to make decisions about the relevant activities.

Rights from Other Binding Arrangements

AG40. Other decision-making rights, in combination with voting rights, can give an entity the current ability to direct the relevant activities. For example, the rights specified in a binding arrangement in combination with voting rights may give an entity the current ability to direct the operating or financing policies or other key activities of another entity that significantly affect the benefits received by the entity. However, an entity would not control another entity if that other entity were able to determine its policy or program to a significant extent, (for example, by failing to comply with the binding arrangement and accepting the consequences, or by changing its constitution or dissolving itself).

Economic Dependence

AG41. Economic dependence, alone, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:

(a) An entity has a single major client and the loss of that client could affect the existence of the entity’s operations; or

(b) An entity’s activities are predominantly funded by grants and donations and it receives the majority of its funding from a single entity.

AG42. An entity may be able to influence the financial and operating policies of another entity that is dependent on it for funding. However, a combination of factors will need to be considered to determine whether the economic dependence is such that the economically dependent entity no longer has the ultimate power to govern its own financial or operating policies. If an economically dependent entity retains discretion as to whether it will take funding from an entity, or do business with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies. For example, a private school that accepts funding from a government but whose governing body has retained discretion with respect to accepting funds or the manner in which those funds are to be used, would still have the ultimate power to govern its own financial or operating policies. This may be so even if government grants provided to such an

entity requires it to comply with specified conditions. Although the entity might receive government grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, its governing bodies may have ultimate discretion about how assets are used; the entity would therefore control its financial and operating policies. It is also important to distinguish between the operations of an entity and an entity itself. The loss of a major client might affect the viability of the operations of an entity but not the existence of the entity itself.

The Entity's Voting Rights

AG43. An entity with less than a majority of the voting rights has rights that are sufficient to give it power when the entity has the practical ability to direct the relevant activities unilaterally.

AG44. When assessing whether an entity's voting rights are sufficient to give it power, an entity considers all facts and circumstances, including:

(a) The size of the entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:

(i) The more voting rights an entity holds, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(ii) The more voting rights an entity holds relative to other vote holders, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(iii) The more parties that would need to act together to outvote the entity, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(b) Potential voting rights held by the entity, other vote holders or other parties (see paragraphs AG49–AG52);

(c) Rights arising from other binding arrangements (see paragraph AG40); and

(d) Any additional facts and circumstances that indicate the entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AG45. When the direction of relevant activities is determined by majority vote and an entity holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph AG44(a)–(c) alone, that the entity has power over the other entity.

AG46. In other situations, it may be clear after considering the factors listed in paragraph AG44(a)–(c) alone that an entity does not have power.

AG47. However, the factors listed in paragraph AG44(a)–(c) alone may not be conclusive. If an entity, having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings. This includes the assessment of the factors set out in paragraph AG20 and the indicators in paragraphs AG21–AG23. The fewer voting rights the entity holds, and the fewer parties that would need to act together to outvote the entity, the more reliance would be placed on the additional facts and circumstances to assess whether the entity's rights are sufficient to give it power. When the facts and circumstances in paragraphs AG20–AG23 are considered together with the entity's rights, greater weight shall be given to the evidence of power in paragraph AG20 than to the indicators of power in paragraphs AG21–AG23.

AG48. If it is not clear, having considered the factors listed in paragraph AG44(a)–(d), that the entity has power, the entity does not control the other entity.

Potential Voting Rights

AG49. When assessing control, an entity considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are rights to obtain voting rights of another entity, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the rights are substantive (see paragraphs AG25–AG28).

AG50. When considering potential voting rights, an entity shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the entity has with the other entity. This includes an assessment of the various terms and conditions of the instrument as well as the entity's apparent expectations, motives and reasons for agreeing to those terms and conditions.

AG51. If the entity also has voting or other decision-making rights relating to the other entity's activities, the entity assesses whether those rights, in combination with potential voting rights, give the entity power.

AG52. Substantive potential voting rights alone, or in combination with other rights, can give an entity the current ability to direct the relevant activities. For example, this is likely to be the case when an entity holds 40 per cent of the voting rights of another entity and, in accordance with paragraph AG26, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights.

Power when Voting or Similar Rights do not have a Significant Effect on Benefits

AG53. In assessing the purpose and design of another entity (see paragraphs AG5–AG8), an entity shall consider the involvement and decisions made at the inception of the other entity as part of its design and evaluate whether the transaction terms and features of the involvement provide the entity with rights that are sufficient to give it power. Being involved in the design of another entity alone is not sufficient to give an entity control of that other entity. However, involvement in the design of the other entity may indicate that the entity had the opportunity to obtain rights that are sufficient to give it power over the other entity and hence the ability to determine the purpose and design of an entity may give rise to power. In the case of an entity established with most (or all) of its relevant activities predetermined at inception, having the ability to determine the purpose and design of an entity may be more relevant to the control assessment than any on-going decision-making rights.

AG54. In addition, an entity shall consider rights arising from binding arrangements such as call rights, put rights, liquidation rights and rights arising from legislative or executive authority established at the inception of the other entity. When binding arrangements involve activities that are closely related to the other entity, then these activities are, in substance, an integral part of the other entity's overall activities, even though they may occur outside the legal boundaries of the other entity. Therefore, explicit or implicit decision-making rights embedded in binding arrangements that are closely related to the other entity need to be considered as relevant activities when determining power over the other entity.

AG55. For some other entities, relevant activities occur only when particular circumstances arise or events occur. The other entity may be designed so that the direction of its activities and the benefits from those activities are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the other entity's activities when those circumstances or events occur can significantly affect its benefits and thus be relevant activities. The circumstances or events need not have occurred for an entity with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.

AG56. An entity may have an explicit or implicit commitment to ensure that another entity continues to operate as designed. Such a commitment may increase the entity's exposure to variability of benefits and thus increase

the incentive for the entity to obtain rights sufficient to give it power. Therefore a commitment to ensure that another entity operates as designed may be an indicator that the entity has power, but does not, by itself, give an entity power, nor does it prevent another party from having power.

Exposure, or Rights, to Variable Benefits from another Entity

AG57. When assessing whether an entity has control of another entity, the entity determines whether it is exposed, or has rights, to variable benefits from its involvement with the other entity.

AG58. Variable benefits are benefits that are not fixed and have the potential to vary as a result of the performance of another entity. Variable benefits can be only positive, only negative or both positive and negative (see paragraph 30). An entity assesses whether benefits from another entity are variable and how variable those benefits are on the basis of the substance of the arrangement and regardless of the legal form of the benefits. For example:

(a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. The benefits may be variable benefits for the purpose of this Standard because they may expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity might incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.

(b) In the context of financial benefits an entity can hold a bond with fixed interest payments. The fixed interest payments are variable benefits for the purpose of this Standard because they are subject to default risk and they expose the entity to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing another entity's assets are variable benefits because they expose the entity to the performance risk of the other entity. The amount of variability depends on the other entity's ability to generate sufficient revenue to pay the fee.

AG59. A liquidator would not normally have rights to variable benefits from its involvement with the entity being liquidated.

Link between Power and Benefits

Delegated Power

AG60. It is common for public sector entities to be responsible for carrying out government policy. In some cases they may have the authority to act in their own right, in other cases they may act as an agent for a Minister or another entity. For example:

(a) A government department, which is authorized by a Minister to act on the Minister's behalf, might act solely as an agent of the responsible Minister in relation to another entity. In such cases the department would not control the other entity and would not consolidate it.

(b) A government department may operate under a delegation of power from a Minister. The department uses its own discretion in making decisions and taking actions and is not subject to direction from the Minister. In such cases the department is acting in its own right and would need to apply the other requirements of this Standard to determine whether it controlled another entity. The scope of the department's decision-making authority over another entity would be a significant factor in distinguishing whether it is acting as an agent or as a principal.

(c) An entity may establish a trust to carry out specified activities and appoints the trustee. The trustee is responsible for making decisions about the financing and operating activities of the trust in accordance with the trust deed. If the entity can replace the trustee at its discretion, the entity would need to assess

whether it controls the trust given that, for example, it would be exposed, or have rights, to variable benefits in terms of the extent to which its objectives are achieved or furthered through the activities of the trust.

AG61. An entity may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls another entity, the entity shall treat the decision-making rights delegated to its agent as held by the entity directly. In situations where there is more than one principal, each of the principals shall assess whether it has power over the other entity by considering the requirements in paragraphs AG5–AG56. Paragraphs AG62–AG74 provide guidance on determining whether a decision maker is an agent or a principal.

AG62. A decision maker shall consider the overall relationship between itself, the other entity being managed (and assessed for control) and other parties involved with that entity. In particular, a decision maker shall consider all the factors below, in determining whether it is an agent:

(a) The scope of its decision-making authority over the other entity (paragraphs AG64 and AG65);

(b) The rights held by other parties (paragraphs AG66–AG69);

(c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG70–AG72); and

(d) The decision maker's exposure to variability of benefits from other interests that it holds in the other entity (paragraphs AG73 and AG74).

Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances.

AG63. Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG62 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG67).

The Scope of the Decision-Making Authority

AG64. The scope of a decision maker's decision-making authority is evaluated by considering:

(a) The activities that are permitted according to the decision-making agreement(s) and specified by law, and

(b) The discretion that the decision maker has when making decisions about those activities.

AG65. A decision maker shall consider the purpose and design of the other entity, the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of another entity. For example, if a decision maker is significantly involved in the design of the other entity (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.

Rights held by Other Parties

AG66. Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of another entity. Substantive removal or other rights may indicate that the decision maker is an agent.

AG67. When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a

decision maker and the greater the magnitude of, and variability associated with, the decision maker's other economic interests (i.e., remuneration and other interests), the less the weighting that shall be placed on this factor.

AG68. Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs AG25–AG28 for additional guidance on rights and whether they are substantive).

AG69. Consideration of the rights held by other parties shall include an assessment of any rights exercisable by another entity's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG26(b)).

Remuneration

AG70. The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the benefits expected from the activities of the other entity, the more likely the decision maker is a principal.

AG71. In determining whether it is a principal or an agent the decision maker shall also consider whether the remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.

AG72. A decision maker cannot be an agent unless the conditions set out in paragraph AG74(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.

Exposure to Variability of Benefits from Other Interests

AG73. A decision maker that holds other interests in another entity (e.g., investments in the other entity or provides guarantees with respect to the performance of the other entity), shall consider its exposure to variability of benefits from those interests in assessing whether it is an agent. Holding other interests in another entity indicates that the decision maker may be a principal.

AG74. In evaluating its exposure to variability of benefits from other interests in the other entity a decision maker shall consider the following:

(a) The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.

(b) Whether its exposure to variability of benefits is different from that of the other entities that receive benefits from the entity being assessed for control and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, another entity.

The decision maker shall evaluate its exposure relative to the total variability of benefits of the other entity. This evaluation is made primarily on the basis of benefits expected from the activities of the other entity but shall not ignore the decision maker's maximum exposure to variability of benefits of the other entity through other interests that the decision maker holds.

Relationship with Other Parties

AG75. When assessing control, an entity shall consider the nature of its relationship with other parties and whether those other parties are acting on the entity's behalf (i.e., they are "de facto agents"). The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the entity.

AG76. Such a relationship need not involve a binding arrangement. Such relationships could also arise from legislative or executive authority that does not meet the definition of a binding arrangement. A party is a de facto agent when the entity has, or those that direct the activities of the entity have, the ability to direct that party to act on the entity's behalf. In these circumstances, the entity shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable benefits through the de facto agent together with its own when assessing control of another entity.

AG77. The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the entity:

(a) The entity's related parties.

(b) A party that received its interest in the other entity as a contribution or loan from the entity making the assessment of control.

(c) A party that has agreed not to sell, transfer or encumber its interests in the other entity without the entity's prior approval (except for situations in which the entity and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties).

(d) A party that cannot finance its operations without subordinated financial support from the entity.

(e) Another entity for which the majority of the members of its governing body or for which its key management personnel are the same as those of the entity.

(f) A party that has a close business relationship with the entity, such as the relationship between a professional service provider and one of its significant clients.

Control of Specified Assets

AG78. An entity shall consider whether it treats a portion of another entity as a deemed separate entity and, if so, whether it controls the deemed separate entity.

AG79. An entity shall treat a portion of another entity as a deemed separate entity if and only if the following condition is satisfied:

Specified assets of the other entity (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the other entity. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the benefits from the specified assets can be used by the remaining portion of the other entity and none of the liabilities of the deemed separate entity are payable from the assets of the remainder of the other entity. Thus, in substance, all the assets, liabilities and equity instruments of that deemed separate entity are ring-fenced from the overall other entity. Such a deemed separate entity is often called a "silo".

AG80. When the condition in paragraph AG79 is satisfied, an entity shall identify the activities that significantly affect the benefits of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the other entity. When assessing control of the deemed separate entity, the entity shall also consider whether it has exposure or rights to variable benefits from its involvement with that deemed separate entity and the ability to use its power over that portion of the other entity to affect the amount of the benefits from that entity.

AG81. If the entity controls the deemed separate entity, the entity shall consolidate that portion of the other entity. In that case, other parties exclude that portion of the other entity when assessing control of, and in consolidating, the other entity.

Continuous Assessment

AG82. An entity shall reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20.

AG83. If there is a change in how power over another entity can be exercised, that change must be reflected in how an entity assesses its power over another entity. For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.

AG84. An event can cause an entity to gain or lose power over another entity without the entity being involved in that event. For example, an entity can gain power over another entity because decision-making rights held by another party or parties that previously prevented the entity from controlling another entity have lapsed.

AG85. An entity also considers changes affecting its exposure, or rights, to variable benefits from its involvement with another entity. For example, an entity that has power over another entity can lose control of that other entity if the entity ceases to be entitled or have the ability to receive benefits or to be exposed to obligations, because the entity would fail to satisfy paragraph 20(b) (e.g., if a contract to receive performance-related fees is terminated).

AG86. An entity shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the entity and other parties can mean that an entity no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the entity, or of other parties, occur, the entity shall reconsider its status as a principal or an agent.

AG87. An entity's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g., a change in the other entity's benefits driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 20 or changes the overall relationship between a principal and an agent.

Determining Whether an Entity is an Investment Entity

AG88. An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs AG89–AG106 describe aspects of the definition of an investment entity in more detail.

Number of Investors

AG89. The definition of an investment entity requires that the entity have one or more investors. An investment entity may have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the economic entity containing the entity, would obtain benefits other than capital appreciation or investment revenue.

AG90. However, in the public sector it is also common for an investment entity to be formed by, or for, a single controlling entity that represents or supports the interests of a wider group of investors (e.g., a pension fund, government investment fund or trust).

Ownership Interests

AG91. An investment entity is typically, but is not required to be, a separate legal entity. The investors in an investment entity will often, but not always, have ownership interests in the form of equity or similar interests (e.g., partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. The definition of an investment entity does not specify that all investors must have the same rights. Having different classes of investors, some of which have rights only to a specific investment or groups of

investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.

AG92. The definition of an investment entity does not specify that the investors must have an ownership interest that meets the definition of net assets/equity in accordance with other applicable IPSAS. An entity that has significant ownership interests in the form of debt that does not meet the definition of net assets/equity may still qualify as an investment entity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

Purpose

AG93. The definition of an investment entity requires that the purpose of the entity is to invest solely for returns from capital appreciation, investment revenue (such as dividends or similar distributions, interest or rental revenue), or both. Documents that indicate what the entity's investment objectives are, such as the entity's mandate, constitution, offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's purpose. Further evidence may include the manner in which the entity presents itself to other parties; for example, an entity may present its objective as providing medium-term investment for capital appreciation.

AG94. An entity that has additional objectives that are inconsistent with the purpose of an investment entity would not meet the definition of an investment entity. Examples of when this may occur are as follows:

(a) An investor whose objective is to jointly develop, produce or market products with its investees. The entity will earn returns from the development, production or marketing activity as well as from its investments;

(b) An investor whose objectives require it to be aligned with the economic, social or environmental policies of another entity. For example, if an entity is required to align its investment policies with other objectives such as owning certain businesses or improving employment outcomes in a jurisdiction; and

(c) An investor whose individual investment decisions have to be ratified or approved by a controlling entity or which is required to follow the direction of a controlling entity. Such ratifications, approvals or decisions are likely to be inconsistent with the purpose of an investment entity.

AG95. An entity's purpose may change over time. In assessing whether it continues to meet the definition of an investment entity, an entity would need to have regard to any changes in the environment in which it operates and the impact of such changes on its investment strategy.

Demonstrating Purpose through Holding More than One Investment

AG96. An investment entity may have a number of ways in which it can demonstrate that its purpose is to invest funds for capital appreciation, investment revenue or both. One way is by holding several investments to diversify its risk and maximize its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.

AG97. There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

(a) Is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;

(b) Has not yet made other investments to replace those it has disposed of;

(c) Is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (e.g., when the required minimum investment is too high for an individual investor); or

(d) Is in the process of being disestablished.

Investment-Related Services and Activities

AG98. An investment entity may provide investment-related services (e.g., investment advisory services, investment management, investment support and administrative services), either directly or through a controlled entity, to third parties as well as to its controlling entity or other investors, even if those activities are substantial to the entity, subject to the entity continuing to meet the definition of an investment entity.

AG99. An investment entity may also participate in the following investment-related activities, either directly or through a controlled entity, if these activities are undertaken to maximize the investment return (capital appreciation or investment revenue) from its investees and do not represent a separate substantial activity or a separate substantial source of revenue to the investment entity:

(a) Providing management services and strategic advice to an investee; and

(b) Providing financial support to an investee, such as a loan, capital commitment or guarantee.

AG100. If an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing investment-related services or activities that relate to the investment entity's investment activities, such as those described in paragraphs AG98–AG99, to the entity or other parties, it shall consolidate that controlled entity in accordance with paragraph 57. If the controlled entity that provides the investment-related services or activities is itself an investment entity, the controlling investment entity shall measure that controlled entity at fair value through surplus or deficit in accordance with paragraph 56.

Exit Strategies

AG101. An entity's investment plans also provide evidence of its purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realize capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

AG102. Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialized property dealers or the open market.

AG103. An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

Fair Value Measurement

AG104. An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its controlled entities or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

(a) Provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with IPSAS; and

(b) Reports fair value information internally to the entity's key management personnel (as defined in IPSAS 20, *Related Party Disclosures*), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

AG105. In order to meet the requirement in AG104(a), an investment entity would:

(a) Elect to account for any investment property using the fair value model in IPSAS 16, *Investment Property*;

(b) Elect the exemption from applying the equity method in IPSAS 36 for its investments in associates and joint ventures; and

(c) Measure its financial assets at fair value using the requirements in IPSAS 41.

AG106. An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 35.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 35. As this Standard is based on IFRS 10, *Consolidated Financial Statements* (issued in 2011, including amendments up to December 31, 2014) issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 35 departs from the main requirements of IFRS 10, or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 49 *Consolidated Financial Statements* was based on IFRS 10 *Consolidated Financial Statements*, having regard to the relevant public sector modifications in IPSAS 6, *Consolidated and Separate Financial Statements*. In January 2015 the IPSASB issued five new IPSAS, including IPSAS 35. These new IPSAS supersede IPSAS 6, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures.*

Process

BC3. In developing the Standard the IPSASB had regard to those aspects of IPSAS 6 that had been developed specially to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard. The IPSASB also had regard to the guidance on assessing whether an entity is controlled for the purposes of the *Government Finance Statistics Manual* 2014 (GFSM 2014) with the aim of avoiding unnecessary differences. In developing additional examples that illustrated the public sector environment the IPSASB also considered guidance developed by national standard setters or by bodies with oversight responsibilities for sectors of government.

Alignment with Government Finance Statistics

BC4. Both at the time of developing ED 49, and as part of the process of finalizing the Standard, the IPSASB considered an analysis of similarities and differences between the definition of control, together with the associated indicators and guidance in GFSM 2014 (and the 2008 System of National Accounts (2008 SNA) with which the GFSM 2014 is harmonized) and the proposed Standard. The IPSASB noted that some of the differences between GFSM and financial reporting are due to their nature and differing objectives. For example, the classification of institutional units into sectors based on their economic nature of being government units will continue to be a significant difference between macroeconomic statistical reporting and accounting and financial reporting. Furthermore, the distinction between market producers and nonmarket producers in macroeconomic statistics would continue to result in a difference in terms of classification to either the general government sector or the public corporations sector, and therefore the overall classification to the public sector, even if there was exactly the same principle and conceptual guidance on the notion of control.

BC5. During the development of the Standard the IPSASB made a number of efforts to align more closely with guidance in GFSM 2014 or to explain more clearly the nature of differences. Issues in respect of which the IPSASB specifically considered GFSM requirements included:

(a) Whether to require the consolidation of all controlled entities, as opposed to reporting by sectors of government;

(b) The similarity between the concept of control in the Standard and the approach taken in GFSM 2014, including consideration of the indicators of control of nonprofit institutions and corporations in 2008 SNA;

(c) The differences between regulatory control and control for financial reporting purposes; and;

(d) The rights associated with golden shares.

Some of these matters are discussed in more detail in later sections of this Basis for Conclusions.

Scope (paragraphs 3–11)

Wholly-Owned and Partly-Owned Controlling Entities

BC6. The IPSASB agreed that, consistent with the requirements in IPSAS 6 and IFRS 10, wholly-owned or partly-owned controlling entities that meet certain conditions, and post-employment or other long-term employee benefit plans should not be required to present consolidated financial statements. The IPSASB decided that a controlling entity which itself is a controlled entity should not be required to present consolidated financial statements only if "users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements". This limitation is intended to protect users where such controlling entities represent key sectors or activities of a government and there are users that need consolidated financial statements for accountability or decision making purposes.

Application of the Consolidation Requirements to all Controlled Entities

BC7. The IPSASB noted the general principle in both IFRS 10 and IPSAS 6 that a controlling entity should consolidate, on a line by line basis, all of its controlled entities. The IPSASB noted that over recent years the potential scale and complexity of a public sector entity's involvement with other entities (particularly the relationships between a government and other entities) had increased. Government interventions had been a contributing factor to governments (and other public sector entities) having a broad range of interests in other entities, some of which could give rise to control as defined in this Standard. The implications of consolidation when a government has a large number of controlled entities, controlled entities carrying out activities that were formerly regarded as solely private sector activities, and controlled entities where control is intended to be temporary, had led some to query whether consolidation of all controlled entities was justified, having regard to the costs and benefits of doing so.

BC8. The IPSASB deliberated extensively on the issue of whether all controlled entities should be consolidated, having regard to users' needs. The IPSASB focused on the information provided by consolidated financial statements, whilst noting that users' information needs may also be met through other statements and reports such as (i) separate financial statements of both controlling and controlled entities; (ii) performance reports; and (iii) statistical reports. Although some of the IPSASB's discussions were relevant to any type of public sector entity that is a controlling entity, many of the matters considered were more pertinent at the whole of government level. The IPSASB considered views on the usefulness of consolidation in relation to the following types of controlled entities (whilst noting that these broad categories would not be universally applicable):

(a) Departments and ministries;

(b) Government agencies;

(c) [Government Business Enterprises (GBE)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016);

(d) Financial institutions (excluding government sponsored enterprises); and

(e) Other investments (including intentional investments, incidental investments and investment entities). The term “incidental investments” was used to refer to interests acquired in the course of meeting another objective, such as preventing the collapse of a private sector entity.

BC9. The IPSASB noted that, although there was general agreement that consolidation of controlled departments and ministries and government agencies is appropriate, some members were less certain that the cost of preparing consolidated financial information was justified for other categories of controlled entities.

BC10. The IPSASB noted arguments in support of requiring consolidation of all controlled entities of a government, including the following:

(a) Consolidated financial statements provide a panoramic view of a government’s activities and current financial position. This panoramic view ensures that users do not lose sight of the risks associated with certain sectors. It shows the performance of the government as a whole.

(b) Identifying categories of entities which should not be consolidated could be difficult. Such attempts could lead to rules-based standards. For example, there could be difficulties in separately identifying entities rescued from financial distress on a consistent basis across jurisdictions and over time. Similar issues could arise in respect of any separate proposals for GBEs. Although the term GBE was a defined term within IPSAS when this Standard was issued, the IPSASB noted that there were differences in the way this definition is being applied in practice in different jurisdictions. In addition to the issue of clearly identifying any group of entities for which different accounting requirements would be appropriate, the IPSASB noted that similar activities can be conducted by a variety of entity types both within and across jurisdictions. So, although proposals for different accounting treatments might lead to consistent treatment for a group of entities within a jurisdiction, it might not result in comparable accounting for similar activities.

(c) Consolidation of all controlled entities is an example of like items being accounted for in like ways. Exceptions to consolidation reduce the coherence of the financial statements. Given that there could be a number of entities that could potentially be regarded as warranting separate treatment or disclosure, this could adversely affect the coherence of consolidated financial statements.

(d) Whole of government financial statements have a different perspective from separate financial statements. Separate financial statements provide information on the activities of the core government.

BC11. The IPSASB also noted arguments that have been raised in opposition to consolidation of certain controlled entities of a government, including the following:

(a) The consolidation of entities that have activities that differ from the activities of the core government could obscure the presentation of the results and the condition of the government itself. This argument was raised in relation to a variety of controlled entities including manufacturing activities, large financial institutions, temporarily controlled entities and entities with financial objectives as opposed to social objectives.

(b) Some consider that equity accounting for certain categories of controlled entities provides appropriate information on financial performance subsequent to acquisition without incurring high costs or obscuring information about the core government.

(c) Some consider that it is inappropriate to consolidate entities that have been rescued from financial distress because they do not represent core government activities and are not intended to be long-term investments.

(d) Where governments have high numbers of controlled entities the costs of the consolidation process are high and may be perceived to outweigh the benefits of consolidating those entities on a line by line basis.

BC12. Reflecting on these arguments for and against requiring consolidation of all controlled entities the IPSASB had regard to:

(a) The objectives of financial reporting, as outlined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework)*;

(b) The limited availability of evidence on user needs and usefulness of consolidated financial information (particularly on the usefulness of consolidated financial information in respect of specific types of controlled entities);

(c) The context within which whole of government consolidated financial statements are prepared;

(d) The interaction between the definition of control and the consolidation requirements in the proposed Standard; and

(e) The IPSASB's role as an international accounting standard setter.

BC13. With regard to the objectives of financial reporting, the IPSASB noted that Chapter 2 of the *Conceptual Framework* identifies the objectives of financial reporting as being to provide information that is useful for accountability purposes and for decision-making purposes. Because of the importance of the budget in the public sector (and the importance of demonstrating compliance with the budget) the IPSASB considered an argument that consolidated financial statements should consolidate only those entities that comprise a government's budget entity. However, the IPSASB agreed that a budget entity approach would not be appropriate for general purpose financial reporting because:

(a) Decisions about which entities are included in a government's budget may be based on factors other than the degree of autonomy of the entity and the extent to which it provides market goods or makes a commercial return.

(b) Decisions about which entities are included in a government's budget are often related to whether the entity's activity is intended to be self-funding. The exclusion of self-funding entities from a government's budget, essentially allows the offsetting of revenue and expenses for those activities and means that budget sector information does not reflect the substance of all transactions controlled by a government.

(c) The budget boundary for a jurisdiction is determined within a jurisdiction. If financial reporting were based on budget sectors there would not be standardized and comparable financial reporting by governments in an international context.

BC14. IPSAS 6 required the consolidation of all controlled entities apart from controlled entities where there was evidence that (a) control was intended to be temporary because the controlled entity was held exclusively with a view to its disposal within twelve months from acquisition and (b) management was actively seeking a buyer. Such temporarily controlled entities were required to be accounted for as financial instruments. The IPSASB considered whether this treatment of temporarily controlled entities should also be required in the proposed Standard. The IPSASB noted a number of concerns regarding the requirements in IPSAS 6. These included:

(a) The difficulty of identifying temporarily controlled entities;

(b) The difficulty of justifying a different accounting treatment for controlled entities that are held for more than a couple of years (which can occur with some entities that are initially considered to be temporarily controlled);

(c) The difficulty of disposing of an investment in its current form. A public sector entity may need to retain responsibility for certain risks in order to dispose of its investment in a temporarily controlled entity. Accounting for such entities as financial instruments provides only a partial representation of the risks associated with the investment;

(d) If a public sector entity is exposed to risks from an investment in a “temporarily” controlled entity, these risks should be reported consistently with the risk exposures from other controlled entities; and

(e) The provision of additional explanations by the reporting entity can address some of the issues that arise when large temporarily controlled entities are consolidated.

BC15. The IPSASB therefore decided not to require a different accounting treatment for temporarily controlled entities. Respondents to ED 49 generally agreed with this proposal, for similar reasons to the IPSASB. In discussing respondents’ comments the IPSASB acknowledged the arguments made by those that considered there should be an exemption from consolidation for temporarily controlled entities, particularly those acquired by a government to protect the interests of citizens. However, the IPSASB also noted the experience of various jurisdictions in accounting for such situations and that consolidation of such entities had occurred in some jurisdictions. The IPSASB also considered the weight of the support for the removal of the exemption. Respondents noted that such investments can ultimately be held for longer periods than originally envisaged. Some respondents encouraged the IPSASB to consider requiring additional disclosures in respect of entities acquired with a view to disposal. The IPSASB agreed to require disclosure of interests in other entities held for sale in IPSAS 38, *Disclosure of Interests in Other Entities*.

BC16. In considering the existence of research regarding the usefulness of consolidated financial statements in meeting user needs, the IPSASB noted that although an increasing number of governments are applying the accrual basis of accounting, this has been a relatively recent trend and consolidation is often implemented in stages, with core government activities being consolidated first, followed by the consolidation of other categories of entities as time and resources permit. As a result, there are few jurisdictions that currently present consolidated whole of government financial statements, and empirical research on the usefulness of consolidated whole of government financial statements has been limited. Research to date has tended to focus on who uses consolidated financial statements and the overall benefits of consolidated financial statements, as opposed to the usefulness of consolidating certain types of controlled entities or accounting for them in an alternative way. As part of its deliberations the IPSASB did consider alternative ways of accounting for and presenting information on subsets of controlled entities such as temporarily controlled entities. The IPSASB noted the difficulties of consistently identifying categories of controlled entities that might be accounted for differently or subject to additional disclosures.

BC17. The IPSASB noted that in developing its requirements for investment entities the IASB focused on user needs. Matters considered by the IPSASB in relation to investment entities are discussed later in this Basis for Conclusions.

BC18. The IPSASB noted that many governments prepared statistical reports which present consolidated financial information in a sectoral approach, breaking down between the general government sectors and public corporation sectors (Non-Financial and Financial). This information is compiled in accordance with statistical guidance in the 2008 SNA, which, in turn, is consistent with guidance in the GFSM 2014 and the European System of Accounts (ESA 2010). The IPSASB considered whether such a statistical approach could be considered as an alternative to the compilation of whole of government accounts based on the IPSAS approach. The IPSASB noted that IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provides guidance on the presentation of such statistical information in consolidated financial statements. However, IPSAS 22 neither requires the provision of such information in consolidated financial statements, nor permits the presentation of such information as an alternative to consolidation of all controlled entities. Although the IPSASB noted that statistical reporting serves an important role and provides information that is comparable across countries, the IPSASB agreed that such information had a different objective and did not fulfill the role of consolidated financial statements in giving an overview of all government activity. The IPSASB also noted that mandating the provision of statistical sector information by governments

other than national governments could be difficult. The IPSASB therefore agreed that any changes to IPSAS 22 should not form part of its project to update IPSAS 6 to 8. Although the IPSASB decided not to provide guidance in this Standard on the presentation of information on statistical sectors, it noted that governments may present consolidated financial statements that are disaggregated by statistical sector.

BC19. ED 49 therefore proposed the consolidation of all controlled entities, other than the exception(s) from consolidation relating to investment entities (discussed separately in this Basis for Conclusions). The IPSASB sought the views of constituents as to whether there are any categories of entities that should not be consolidated, with any proposals for non-consolidation being justified having regard to user needs. Respondents were generally supportive of this proposal, although a number of respondents highlighted implementation difficulties (for example, the costs associated with consolidating a large number of controlled entities). Some respondents also commented on the existence of reporting entities established through legal or administrative means and noted that they may differ from the reporting entity identified in accordance with the proposed Standard. The IPSASB agreed to acknowledge, in the Standard, the existence of reporting entities established through legal or administrative means.

Investment Entities

BC20. In October 2012 the IASB issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27). As a result of these amendments IFRS 10 requires that a controlling entity that is an investment entity account for most of its investments at fair value through profit or loss, as opposed to consolidating them. The IPSASB considered the appropriateness of the requirements in IFRS 10 for similar entities in the public sector. The IPSASB first considered which entities might be affected by such requirements. Entities that might meet the definition of an investment entity include some sovereign wealth funds, some pension funds and some funds holding controlling interests in public-private partnership projects (PPP) or private finance initiatives (PFI). The IPSASB noted that any requirements applicable only to investment entities might apply to a relatively small number of public sector entities (having regard to the types of entities that might be investment entities and the fact that these entities might be required to report in accordance with a range of accounting standards, including domestic standards).

BC21. The IPSASB noted the comments made by respondents to the IASB in relation to the IASB's investment entity proposals and considered that similar arguments would apply in the public sector. Indeed, the IPSASB noted that some types of entities specifically identified by the IASB as potential investment entities (for example, sovereign wealth funds) could be public sector entities applying IPSAS. The IPSASB noted the IASB's focus on user needs in the IASB's deliberations on investment entities. The IPSASB noted that, depending on the reporting framework of the jurisdiction in which they operate, a public sector investment entity might be required to report in accordance with IPSAS, IFRS, or domestic standards. The IPSASB agreed that the IFRS 10 requirement for an investment entity to account for its investments at fair value appeared to be appropriate in the public sector. The IPSASB also noted that consistent requirements in IPSAS and IFRS would reduce any opportunity for accounting arbitrage when determining which accounting standards an investment entity should be required to apply.

BC22. The IPSASB considered whether the definition of an investment entity in IFRS 10 was appropriate in the public sector. The IPSASB agreed that the definition was largely appropriate although it noted that an investment entity will frequently have an external mandate that establishes its purpose (as opposed to the entity asserting its purpose to investors) and amended the definition accordingly. The IPSASB considered that it would be helpful to give additional public sector examples of scenarios in which an entity would not be an investment entity by virtue of having additional objectives.

BC23. The IPSASB considered whether the typical characteristics of an investment entity were appropriate for application in the public sector. The IPSASB noted that IFRS 10 allows for the possibility that an entity may be an investment entity, despite not meeting all the typical characteristics. In such cases the entity is required

to explain why it is an investment entity, despite not having all of the typical characteristics of an investment entity. The IPSASB considered that the typical characteristics identified in IFRS 10 were not likely to be typical characteristics in the public sector context. For example, a sovereign wealth fund might:

(a) Have a single investor (being a Minister or a public sector entity). The fund could argue that it is investing funds on behalf of, or for the benefit of, citizens. IFRS 10, paragraph BC259, explicitly refers to government-owned investment funds and funds wholly owned by pension plans and endowments when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition of an investment entity.

(b) Have investors that are related parties. A fund with a related party investor could nevertheless be acting on behalf of many unrelated beneficiary investors.

(c) Have ownership interests in a form other than equity or similar interests. The IPSASB noted both that the form of ownership interests in sovereign wealth funds could vary, and that IFRS 10, paragraph BC264, specifically refers to pension funds and sovereign wealth funds when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition. IFRS 10, paragraph BC264, states “For example, a pension fund or sovereign wealth fund with a single direct investor may have beneficiaries that are entitled to the net assets of the investment fund, but do not have ownership units.

BC24. Because of the differences between the private and public sector, the IPSASB decided not to identify typical characteristics separately from the definition of an investment entity. The IPSASB noted that much of the discussion in IFRS 10 regarding the typical characteristics of investment entities described ways in which an entity could demonstrate that it met the definition of an investment entity. The IPSASB therefore decided to retain such guidance, but to locate it together with other guidance on the definition of an investment entity. The IPSASB agreed that the characteristic in IFRS 10 that “The individuals or entities that have provided funds to the entity are not related parties of the entity” did not reflect the public sector context and agreed to omit the guidance on that characteristic.

BC25. Although the IPSASB decided not to identify typical characteristics separately from the definition of an investment entity, the IPSASB considered that most public sector entities classifying themselves as investment entities should be required to disclose information about the judgments and assumptions made. The IPSASB considered that disclosure of these judgments and assumptions would be important for transparency and encourage appropriate use of the investment entity accounting requirements.

BC26. The IPSASB noted that in comparison with private sector entities which tend to have clear financial objectives, public sector entities can have a broader range of objectives, and these objectives can change over time. A public sector entity’s objectives may also change as a result of changes in government policy and changes could lead to an entity that had formerly met the definition of an investment entity ceasing to do so. Having regard to the possibility of changing objectives the IPSASB therefore agreed to highlight the need for an entity to reassess its status on a regular basis.

BC27. The IPSASB noted that the IFRS 10 investment entity requirements apply to the financial statements of an investment entity itself – they cannot be applied by the controlling entity of any investment entity. IFRS 10 requires that a controlling entity that is not itself an investment entity shall present consolidated financial statements in which all controlled entities are consolidated on a line by line basis. The IPSASB considered whether the public sector context would lead it to place more or less weight on arguments considered by the IASB in relation to this matter, and whether there were any public sector characteristics that would support a differing accounting treatment by the controlling entity of an investment entity.

BC28. The IPSASB noted that the IASB had concerns that if a non-investment controlling entity were required to retain the fair value treatment used by its controlled investment entities, it could achieve different accounting

outcomes by holding controlled entities directly or indirectly through a controlled investment entity. The IPSASB considered that this issue was of less concern in the public sector context. In particular the IPSASB noted that ownership interests through shares or other equity instruments are less common in the public sector. As a consequence, it is less likely that entities within an economic entity in the public sector would hold an ownership investment in the ultimate controlling entity and less likely that they would have ownership investments in other entities within the economic entity.

BC29. The IPSASB considered what type of information users would find most useful about a controlled investment entity. The IPSASB considered that users would find it most useful if the accounting for investments applied in a controlled investment entity's financial statements were extended to its controlling entity's financial statements. The IPSASB therefore proposed that a controlling entity with a controlled investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 41 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with the usual consolidation accounting policies required by the Standard. The IPSASB considered that its proposals reflect the fact that a controlling entity does not manage an investment entity itself on a fair value basis. Rather, it manages the investments of the investment entity on a fair value basis. This approach is also consistent with the accounting by an investment entity for its investments in other entities.

BC30. At the time that IPSAS 35 was being developed the IASB proposed to clarify aspects of the application of the investment entity requirements. The IASB issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) in December 2014. The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

Control (paragraphs 18–37)

BC31. The IPSASB agreed that the three requirements for control outlined in IFRS 10 are generally appropriate for the public sector. The IPSASB noted that the IFRS 10 requirements to have power, returns and a link between power and returns is similar to the approach previously taken by the IPSASB in IPSAS 6, although IPSAS 6 required that both power and benefits be present. Consistent with the terminology used in IPSAS 6 the IPSASB decided that the term "benefits" was generally more appropriate than "returns" in the public sector context (as discussed under the subheading "Terminology" below). However, the term "returns" continued to be used in the context of investment entities.

BC32. The IPSASB took note of the approach taken in Government Finance Statistics in relation to control over an entity. The 2008 SNA, paragraph 4.80, includes eight indicators of control of corporations and five indicators of control of nonprofit institutions and explains that "Although a single indicator could be sufficient to establish control, in other cases a number of indicators may collectively indicate control". Overall, the direction of the statistical indicators is on the same lines as the approach in this Standard and therefore the practical results of the respective analyses will likely largely coincide. Some of the indicators in GFS are mentioned in the following paragraphs.

Power (paragraphs 23–29)

BC33. The IPSASB decided to modify IFRS 10 to:

(a) Highlight the range of relevant activities that could occur in the public sector and stress that control of financial and operating policies can demonstrate power over relevant activities;

(b) Clarify that regulatory control and economic dependence do not give rise to power for the purposes of the Standard; and

(c) Discuss specific powers that could give rise to control in the public sector, including golden shares, a right to appoint the majority of the board of another entity, and powers obtained through legislation or enabling documents.

Regulatory Control

BC34. The IPSASB agreed that the previous guidance on regulatory control in IPSAS 6 should be incorporated in the Standard. The IPSASB noted that IFRS 10 had been developed for application by profit-oriented entities, few of whom have powers to create or enforce legislation or regulations. By contrast, the nature of government means that regulatory power occurs frequently in the public sector.

BC35. In considering how to incorporate guidance on regulatory control in the Standard the IPSASB noted that (i) the discussion of power in IFRS 10 focuses on the ability to influence the "relevant activities" of the investee, and (ii) power is only one of the three elements that are required for control to exist. The IPSASB decided to place the discussion of regulatory control alongside the discussion of power and relevant activities.

BC36. The IPSASB noted that the discussion of regulation and control in the 2008 SNA is similar to that previously in IPSAS 6. The 2008 SNA states:

> **Regulation and control**. The borderline between regulation that applies to all entities within a class or industry group and the control of an individual corporation can be difficult to judge. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities. It is possible for regulatory involvement to exist in important areas, such as in price setting, without the entity ceding control of its general corporate policy. Choosing to enter into or continue to operate in a highly regulated environment suggests that the entity is not subject to control. When regulation is so tight as to effectively dictate how the entity performs its business, then it could be a form of control. If an entity retains unilateral discretion as to whether it will take funding from, interact commercially with, or otherwise deal with a public sector entity, the entity has the ultimate ability to determine its own corporate policy and is not controlled by the public sector entity.

BC37. The IPSASB noted that the 2008 SNA discusses control by a dominant customer. It states:

> "In general, if there is clear evidence that the corporation could not choose to deal with non-public sector clients because of public sector influence, then public control is implied."

Economic Dependence

BC38. IFRS 10 paragraph B40 states that "…in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee." Although the IPSASB agreed that economic dependence, on its own, does not give rise to control, the IPSASB noted that, in the public sector, economic dependence may occur in conjunction with other rights. These other rights need to be assessed to determine if they give rise to control.

BC39. Because of the prevalence of economic dependence in the public sector the IPSASB decided that it was appropriate to discuss ways in which economic dependence can arise and include examples of economic dependence.

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

BC40. The IPSASB agreed that the Standard should acknowledge that special voting rights attaching to ownership interests (often referred to as "golden shares") will influence assessments of control. The IPSASB noted that such rights are also acknowledged in the GFSM 2014.

Substantive Rights

BC41. Statutory independence is common in the public sector. The IPSASB agreed to illustrate the ways in which statutory independence may influence an investor's assessments of rights. The Standard notes that the

existence of statutory independence of an investee could be seen as a barrier to the investor exercising its rights (paragraph AG26). It also notes that the existence of statutory powers to operate independently does not, of itself, preclude an entity from being controlled by another entity (paragraph 25).

Terminology

BC42. In addition to making changes to reflect the standard terminology in IPSAS, the IPSASB agreed that a number of other changes to the terminology in IFRS 10 were appropriate. Unless noted otherwise in an IPSAS, this discussion of terminology is relevant to IPSAS 34 to 38.

Investor/Investee

BC43. IFRS 10 uses the terms “investor” and “investee” to denote (i) the potential controlling entity, being the entity that is applying the Standard to assess whether control exists and (ii) the potential controlled entity. The IPSASB considered that these terms were inappropriate in most parts of this Standard because they could be read as implying the existence of a financial instrument representing an ownership interest. Most assessments of control in the public sector do not involve such financial instruments.

BC44. The IPSASB considered other terms that could be used to describe investors and investees, in the context of the Standard. One option was to refer to an investor as a “potential controlling entity” and an investee as a “potential controlled entity”. The IPSASB considered that these phrases, whilst clear in meaning, would be cumbersome to use throughout the Standard. The IPSASB noted that IPSAS generally refer to the entity applying the Standard as “the entity”. In the case of this Standard, the entity applying the Standard is the entity that is assessing whether or not it controls another entity (referred to as the investor in IFRS 10). The entity applying the Standard is doing so in order to determine whether it controls another entity. The IPSASB therefore decided that, depending on the context, it would refer to the investor as “the entity” and the investee as “another entity”, “other entity”, or “entity being assessed for control”.

BC45. The IPSASB agreed to retain use of the term “investors” where the Standard is referring to a specific investment and the term is used in accordance with its usual meaning. This was particularly relevant in the parts of the Standard dealing with investment entities.

BC46. The IPSASB also agreed that the terms “investor” and “investee” are appropriate when referring to interests in joint ventures and associates.

Binding Arrangements

BC47. The IPSASB agreed to replace most references to “contractual arrangements” in IFRS 10 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities applying IPSAS may not have the power to enter into contracts but nevertheless may have the authority to enter into binding arrangements. In addition, the IPSASB agreed that binding arrangements, for the purpose of this Standard, should encompass rights that arise from legislative or executive authority. The definition of binding arrangements used in this Standard is intentionally broader than that used in the financial instruments standards, where it is used in relation to rights that are similar to contracts and in respect of willing parties.

Benefits

BC48. The IPSASB agreed that the term “benefits” is more appropriate than the term “returns” in the public sector, particularly given the existence of control relationships in the absence of a financial investment in the controlled entity. The IPSASB considered that the term “returns” could be regarded as giving an inappropriate emphasis to financial returns, whereas, in the public sector, benefits are more likely to be non-financial than financial. The term “returns” was retained in the context of investment entities.

BC49. The IPSASB decided to modify IFRS 10 to:

(a) Highlight that many assessments of control in the public sector involve assessments of non-financial benefits;

(b) Note that benefits can have positive or negative aspects; and

(c) Include examples of benefits in a public sector context.

BC50. The IPSASB agreed to locate the examples of benefits in the body of the Standard as it considered that the examples would be particularly useful for an entity making an initial assessment of whether it might control other entities.

BC51. The definition of control in IPSAS 35 refers to "variable benefits" and this concept is referred to throughout the Standard. The IPSASB considered how the Standard would apply to benefits that appeared to be fixed or constant. The IPSASB noted that the IASB had explicitly considered this issue and had provided examples to show that benefits that appear to be fixed could in fact be variable, because they exposed the entity to performance risk. The IPSASB noted that the IASB examples related to financial benefits and agreed to incorporate an example of a non-financial benefit in paragraph AG58.

Uniform Reporting Dates

BC52. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the controlling entity and its controlled entities. The IPSASB noted that IFRS 10 requires that the financial statements used in preparing consolidated financial statements have the same reporting date, or where this is impracticable, requires that adjustments be made to the most recent financial statements of the controlled entities. In addition, IFRS 10 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Implementation Issues

BC53. A number of respondents commented on the difficulty of preparing consolidated financial statements, particularly when there are a large number of controlled entities, as in the case of whole of government financial statements. The IPSASB acknowledged these practical difficulties, whilst noting that most jurisdictions presenting consolidated financial statements have faced similar difficulties. In these jurisdictions the consolidating entities used simplifying strategies to cope with the complexity and the consolidation difficulties. Such strategies include:

(a) Assessing the existence of control for various categories of entities in phases, with an initial focus on entities that are likely to be material.

(b) Not consolidating (or deferring the consolidation of) controlled entities that are likely to be immaterial.

(c) Identifying the cost-effective ways of obtaining information about inter-entity balances and transactions.

(d) Not eliminating immaterial inter-entity transactions and balances.

(e) Considering whether all disclosures must be made in respect of all entities.

BC54. The IPSASB considered whether to provide specific guidance on the application of materiality when preparing consolidated financial statements but concluded that this would not be appropriate in a financial reporting standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

BC55. At the time that IPSAS 35 was being developed, the IASB was in the process of seeking feedback on proposals to amend IFRS 10 and IAS 28 so that the requirements for the recognition of a partial gain or loss

for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute a business*, as defined in IFRS 3, *Business Combinations*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36, *Investments in Associates and Joint Ventures,* on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards-level requirements for public sector combinations.

BC56. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the loss of control of a former controlled entity to an investor's associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 35 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the loss of control of a former controlled entity *that does not contain an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 35.

BC57. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 35, to be applied from a date to be determined by the IPSASB.

Revision of IPSAS 35 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC58. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

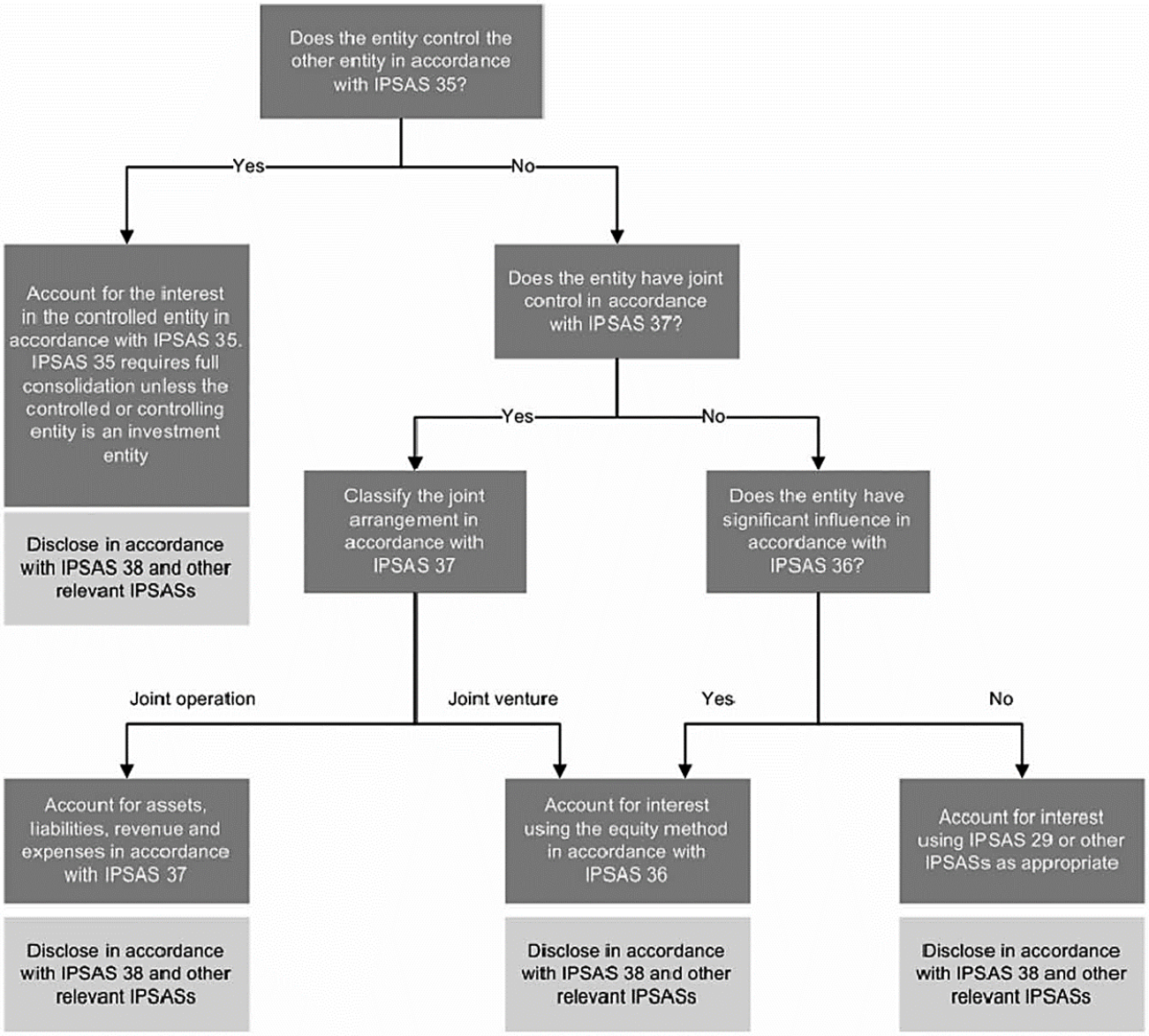
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 35.

Nature of Relationship with Another Entity

IG1. The diagram below summarizes the accounting for various types of involvement with another entity.

Flowchart 1: Forms of Involvement with Other Parties



Illustrative Examples

These examples accompany, but are not part of, IPSAS 35.

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 35.

Power (paragraphs AG9–AG56)

IE2. The following example illustrates an assessment of whether power exists for the purposes of this Standard.

Example 1

A state government partially funds the activities of a local government. Some of this funding is required to be spent on specified activities. The local government has a council that is elected every four years by the local community. The council decides how to use the local government's resources for the benefit of the local community. The activities of the local government are diverse and include library services, provision of leisure facilities, management of refuse and wastewater, and enforcement of building and health and safety regulations. These activities are the relevant activities of the local government. Many of these activities also coincide with the interests of the state government.

Despite its partial funding of the local government's activities, the state government does not have the power to direct the relevant activities of the local government. The rights of the local government over the relevant activities preclude the state government from having control.

Regulatory Control (paragraph AG12)

IE3. The following examples illustrate various forms of regulatory control. None of these forms of regulatory control give rise to power over the relevant activities for the purposes of this Standard. However, those examples do not rule out that there may be instances where power over the relevant activities for the purposes of this Standard may derive from regulatory control.

Example 2

A pollution control authority has the power to close down the operations of entities that are not complying with environmental regulations.

The existence of this power does not constitute power over the relevant activities.

Example 3

A city has the power to pass zoning laws to limit the location of fast food outlets or to ban them altogether.

The existence of this power does not constitute power over the relevant activities of the fast food outlets.

Example 4

A central government has the power to impose regulatory control on monopolies. A wholly owned government agency has the power to regulate monopolies that are subject to such regulatory control and has established price ceilings for entities that distribute electricity. The central government does not have an ownership interest in the electricity distributors and does not receive financial benefits from the electricity distributors. Neither the central government, nor the government agency, has control as a result of the power to impose regulatory control. Any other powers would need to be separately assessed.

Example 5

A gaming control board (GCB) is a government agency that regulates casinos and other types of gaming in a state, and enforces state gaming legislation. The GCB is responsible for promulgating rules and regulations that govern the conduct of gaming activities in the state. The rules and regulations stem from legislation. The legislation was passed by the legislature and sets forth the broad policy of the state with regard to gaming; while the rules and regulations provide detailed requirements that must be satisfied by a gaming establishment, its owners, employees, and vendors. The rules and regulations cover a broad range of activity, including licensing, accounting systems, rules of casino games, and auditing.

The GCB also has authority to grant or deny licenses to gaming establishments, their ownership, employees, and vendors. In order to obtain a license, an applicant must demonstrate that they possess good character, honesty and integrity. License application forms typically require detailed personal information. Based upon the type of license being sought, an applicant may also be required to disclose details regarding previous business relationships, employment history, criminal records, and financial stability.

Although the rules and regulations have an impact on how gaming establishments operate, the GCB does not have power over the relevant activities (as defined in this Standard) of the gaming establishments. The regulations apply to all gaming establishments and each establishment has a choice as to whether it wishes to engage in gaming or not. The purpose of the gaming legislation and regulations is to protect the public, rather than to establish a controlling interest in the gaming establishments.

Relevant Activities and Direction of Relevant Activities (paragraphs AG13–AG15)

IE4. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

Example 6

Entities A and B, form another entity, entity C, to develop and market a medical product. Entity A is responsible for developing and obtaining regulatory approval of the medical product—that responsibility includes having the unilateral ability to make all decisions relating to the development of the product and to obtaining regulatory approval. Once the regulator has approved the product, entity B will manufacture and market it—entity B has the unilateral ability to make all decisions about the manufacture and marketing of the product. If all the activities—developing and obtaining regulatory approval as well as manufacturing and marketing of the medical product—are relevant activities, entity A and entity B each needs to determine whether they are able to direct the activities that most significantly affect the benefits from entity C. Accordingly, entity A and B each need to consider whether developing and obtaining regulatory approval or the manufacturing and marketing of the medical product is the activity that most significantly affects the benefits from entity C and whether they are able to direct that activity. In determining which entity has power, entities A and B would consider:

(a) The purpose and design of entity C;

(b) The factors that determine the surplus, revenue and value of entity C as well as the value of the medical product;

(c) The effect of their decision-making authority on entity C's performance with respect to the factors in (b); and

(d) Their exposure to variability of benefits from entity C.

In this particular example, the entities would also consider:

(a) The uncertainty of, and effort required in, obtaining regulatory approval (considering their record of successfully developing and obtaining regulatory approval of medical products); and

(b) Which entity controls the medical product once the development phase is successful.

Example 7

An investment vehicle is created and financed with a debt instrument held by an entity (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual benefit from the investment vehicle. One of the equity investors who holds 30 per cent of the equity instruments is also the asset manager. The investment vehicle uses its proceeds to purchase a portfolio of financial assets, exposing the investment vehicle to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the investment vehicle. The benefits from the investment vehicle are significantly affected by the management of the investment vehicle's asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (i.e., when the value of the portfolio is such that the equity tranche of the investment vehicle has been consumed). From that time, a third-party trustee manages the assets according to the instructions of the debt investor. Managing the investment vehicle's asset portfolio is the relevant activity of the investment vehicle. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that most significantly affect the benefits from the investment vehicle, including considering the purpose and design of the investment vehicle as well as each party's exposure to variability of benefits.

Rights that Give an Entity Power over another Entity (paragraphs AG16–AG28)

IE5. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

Example 8

A government housing agency establishes a community housing program that provides low-cost housing. The program is operated under an agreement with an incorporated association. The association's only activity is to manage the community housing facility. The association has no ownership instruments.

The relevant activities of the association comprise:

- Reviewing and selecting applicants for housing;
- The day-to-day operation of the housing program;
- Maintaining the houses and common facilities; and
- Improving and extending the housing facilities.

The board of governors of the association has 16 members, with eight appointed by (and subject to removal by) the government housing agency. The chair is appointed by the board from amongst the appointees of the government housing agency, and has a casting vote that is rarely exercised. The board meets regularly and reviews reports received from the association's management. Based on these reports, the board may confirm or override management decisions. In addition, the board makes decisions on major issues such as significant maintenance and investing further capital to build additional housing, after reviewing vacancy levels and the demand for housing.

The government housing agency owns the land on which the housing facilities stand and has contributed capital and operating funds to the association since it was established. The association owns the housing facilities.

The association retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a direct financial return to the government housing agency. The above fact pattern applies to examples 8A and 8B described below. Each example is considered in isolation.

Example 8A

Based on the facts and circumstances outlined above, the government housing agency controls the association.

The government housing agency has rights that give it the current ability to direct the relevant activities of the association, regardless of whether it chooses to exercise those rights.

The government housing agency appoints eight members of the board of governors, one of whom will become the chair, who has a casting vote. As a result, the government housing agency has power over the association through substantive rights that give it the current ability to direct the relevant activities of the association, regardless of whether the government housing agency chooses to exercise those substantive rights.

The government housing agency also has exposure or rights to variable benefits from its involvement with the association. The government housing agency obtains non-financial benefits through the association furthering its social objective of meeting the need for low-cost community housing. Although not able to receive direct financial benefits, the government housing agency obtains indirect benefits through its ability to direct how the financial returns are to be employed in the community housing program.

The government housing agency also satisfies the final control criterion. Through its appointees on the board, the government housing agency has the ability to use its power to affect the nature or amount of its benefits from the association.

The government housing agency satisfies all three criteria for control and therefore the government housing agency controls the association.

Example 8B

In this example, the facts of Example 8A apply, except that:

(a) The association’s board of governors is elected through a public nomination and voting process that does not give rights to the government housing agency to appoint board members; and

(b) Decisions made by the association’s board are reviewed by the government housing agency, which may offer advice to the association.

Based on the revised facts and circumstances outlined above, the government housing agency does not have substantive rights relating to the association and therefore does not have power over the association.

The government housing agency’s social objectives in relation to low-cost community housing are still being achieved and therefore it will still obtain direct non-financial benefits. However, congruence of objectives alone is insufficient to conclude that one entity controls another entity (refer paragraph 36).

The government housing agency does not have power and consequently does not have the ability to use

power to affect the nature or amount of the agency's benefits. The government housing agency is unable to satisfy two of the three control criteria and therefore the government housing agency does not control the association.

Example 9

A government has the right to appoint and remove the majority of members of a statutory body. This power has been used by previous governments. The current government has not done so because it does not wish, for political reasons, to be regarded as interfering in the activities of the statutory body. In this case the government still has substantive rights, even though it has chosen not to use them.

Example 10

A local government has a policy that, where it holds land that is surplus to its requirements, consideration should be given to making the land available for affordable housing. The local government establishes terms and conditions to ensure that the housing provided remains affordable and available to meet local housing needs.

In accordance with this policy, the local government sold part of a site to a housing association for CU1 to provide 20 affordable homes. The remainder of the site was sold at open market value to a private developer.

The contract between the local government and the housing association specifies what the land can be used for, the quality of housing developments, ongoing reporting and performance management requirements, the process for return of unused land and dispute resolution. The land must be used in a manner consistent with the local government's policy for affordable housing.

The agreement also has requirements regarding the housing association's quality assurance and financial management processes. The housing association must demonstrate that it has the capacity and authority to undertake the development. It must also demonstrate the added value that can be achieved by joining the local government's resources with that of the housing association to address a need within a particular client group in a sustainable way.

The Board of the housing association is appointed by the members of the housing association. The local government does not have a representative on the Board.

Based on the facts and circumstances outlined above, the government housing agency does not hold sufficient power over the association to direct its relevant activities and therefore does not control the association. The local government may receive indirect, non-financial benefits from the association in that the local government's social objectives in relation to low-cost community housing are being furthered by the activities of the housing association. However, congruence of objectives alone is insufficient to conclude that one entity controls another (see paragraph 36). In order to have power over the housing association the local government would need to have the ability to direct the housing association to work with the local government to further the local governments' objectives.

Example 11

An entity being assessed for control has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders' meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

The above fact pattern applies to examples 11A–11D described below. Each example is considered in isolation.

Example 11A

An entity holds a majority of the voting rights in the other entity. The entity's voting rights are substantive because the entity is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the entity can exercise its voting rights does not stop the entity from having the current ability to direct the relevant activities from the moment the entity acquires the shareholding.

Example 11B

An entity is party to a forward contract to acquire the majority of shares in the other entity. The forward contract's settlement date is in 25 days. The existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract will have been settled. Thus, the entity has rights that are essentially equivalent to the majority shareholder in example 11A above (i.e., the entity holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). The entity's forward contract is a substantive right that gives the entity the current ability to direct the relevant activities even before the forward contract is settled.

Example 11C

An entity holds a substantive option to acquire the majority of shares in the other entity that is exercisable in 25 days and is deeply in the money. The same conclusion would be reached as in example 11B.

Example 11D

An entity is party to a forward contract to acquire the majority of shares in the other entity, with no other related rights over the other entity. The forward contract's settlement date is in six months. In contrast to the examples above, the entity does not have the current ability to direct the relevant activities. The existing shareholders have the current ability to direct the relevant activities because they can change the existing policies over the relevant activities before the forward contract is settled.

Power without a Majority of the Voting Rights and Special Voting Rights Attaching to Ownership Interests (paragraphs AG36–AG37)

IE6. The following examples illustrate assessments of whether special voting rights attaching to ownership interests in another entity give rise to power for the purposes of this Standard.

Example 12

A central government has privatized a company and, in order to protect its national interests, it has used a "golden share" mechanism. The "golden share" does not have any value or give any percentage rights to the capital of the company. The golden share states that control of the company, or a 24 percent stake in the company cannot be sold without the permission of the central government.

The central government has protective rights, not substantive rights.

Example 13

A central government sold all of its shares in a company, but kept a golden share (with a nominal value of one currency unit). The golden share granted the Secretary of State (as the holder of the share) a 15 percent shareholding in the company, and consequently the ability to block any potential takeover of the business. It also required that the chairman of the board and the chief executive be citizens of the country. The rationale for the golden share was to protect the company from an overseas acquisition, principally on the grounds of national security.

The central government has protective rights, not substantive rights.

Example 14

A central government does not own any shares in defense companies. However it has passed legislation which specifies that, with respect to companies carrying out strategic activities for the defense and national security system, in the event that fundamental interests of national defense or security could be materially affected, the government may:

(a) Impose specific conditions on the purchase of an interest in any such company – by any person – relating to the security of procurement and of information, the transfer of technologies and export controls;

(b) Veto the purchase by any person – other than the state (whether directly or indirectly, individually or jointly) – of an interest in the voting share capital in any such company that, given its size, may jeopardize defense or national security; and

(c) Veto the adoption of resolutions by the shareholders or the board of directors of any such company relating to certain extraordinary transactions (such as mergers, de-mergers, assets disposals, winding up, and bylaws amendments concerning the corporate purpose or equity ownership caps in certain state-controlled companies).

The central government has protective rights, not substantive rights, in respect of these companies.

Control of the Board or Other Governing Body (paragraph AG38)

IE7. The following example illustrates assessments of whether an entity has control of the board or governing body of another entity for the purposes of this Standard. The existence of such control may provide evidence that an entity has sufficient rights to have power over another entity.

Example 15

A national museum is governed by a board of trustees who are chosen by the government department responsible for funding the museum. The trustees have freedom to make decisions about the operation of the museum.

The department has the power to appoint the majority of the museum's trustees. The department has the potential to exercise power over the museum.

Economic Dependence (paragraphs AG41–AG42)

IE8. The following examples illustrate assessments of whether dependence on funding from another entity gives rise to power in the context of this Standard.

Example 16

A research institution is one of many institutions that receive the majority of their funding from a central government. The institutions submit proposals and the funding is allocated through a tendering process. The research institution retains the right to accept or decline funding.

The central government does not control the research institution because the research institution can choose to decline funding from the government, seek alternative sources of funding or cease to operate.

Example 17

A catering entity has a binding arrangement to supply food to a government-owned school. The arrangement is between the company and the school. The school contracts generate the majority of the revenue of the catering entity. There are general requirements, set out in regulations, which are applicable to all such arrangements including nutritional standards and policies on procurement. For example, the arrangements specify how much produce must be purchased locally.

Current arrangements are for a period of five years. At the end of this period, if the catering entity wishes to continue supplying school meals it is required to go through a tendering process and compete with other entities for the business.

The school does not control the catering entity because the catering entity can choose to stop supplying school meals, seek other work, or cease to operate.

Example 18

An international donor funds a project in a developing country. The donor uses a small, local agency in the country to run the project. The local agency has its own management board but is highly dependent on the donor for funding. The agency retains the power to turn down funding from the donor.

The international donor does not control the local agency because the agency can choose not to accept funding from the donor and seek alternative sources of funding, or cease to operate.

Voting Rights (paragraphs AG43–AG48)

IE9. The following examples illustrate assessments of whether an entity with less than a majority of the voting rights in another entity has the practical ability to direct the relevant activities unilaterally, and whether its rights are sufficient to give it power over that other entity for the purposes of this Standard.

Example 19

An entity acquires 48 per cent of the voting rights of another entity. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders have any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the entity determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the entity concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

Example 20

Entity A holds 40 per cent of the voting rights of another entity and twelve other investors each hold 5 per cent of the voting rights of the other entity. A shareholder agreement grants Entity A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, Entity A concludes that the absolute size of its holding and the relative size of the other shareholdings alone are not conclusive in determining whether it has rights sufficient to give it power. However, Entity A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the other entity. The fact that Entity A might not have exercised this right or the likelihood of Entity A exercising its right to select, appoint or remove management shall not be considered when assessing whether Entity A has power.

Example 21

Entity A holds 45 per cent of the voting rights of another entity. Two other investors each hold 26 per cent of the voting rights of the other entity. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. In this case, the size of Entity A's voting interest and its size relative to the other shareholdings are sufficient to conclude that Entity A does not have power. Only two other investors would need to co-operate to be able to prevent Entity A from directing the relevant activities of the other entity.

Example 22

An entity holds 35 per cent of the voting rights of another entity. Three other shareholders each hold 5 per cent of the voting rights of the other entity. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the other entity require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the other entity have been cast at recent relevant shareholders' meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the entity would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the entity has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the entity.

Potential Voting Rights (paragraphs AG49–AG52)

IE10. The following examples illustrate assessments of whether potential voting rights are substantive for the purposes of this Standard.

Example 23

Entity A holds 70 per cent of the voting rights of another entity. Entity B has 30 per cent of the voting rights of the other entity as well as an option to acquire half of Entity A's voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). Entity A has been exercising its votes and is actively directing the relevant activities of the other entity. In such a case, Entity A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although Entity B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the other entity), the terms and conditions associated with those options are such that the options are not considered substantive.

Example 24

Entity A and two other investors each hold a third of the voting rights of another entity. The other entity's business activity is closely related to Entity A. In addition to its equity instruments, Entity A also holds debt instruments that are convertible into ordinary shares of the other entity at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, Entity A would hold 60 per cent of the voting rights of the other entity. Entity A would benefit from realizing synergies if the debt instruments were converted into ordinary shares. Entity A has power over the other entity because it holds voting rights of the other entity together with substantive potential voting rights that give it the current ability to direct the relevant activities.

Power when Voting or Similar Rights do not have a Significant Effect on Benefits (paragraphs AG53–AG56)

IE11. The following examples illustrate assessments of whether an entity has power in the absence of voting rights or similar rights for the purposes of this Standard.

Example 25

A central government has legislation that governs the establishment of cultural and heritage boards. These boards have a separate legal status and have limited liability. The powers and objectives of the boards, along with their reporting requirements are specified by legislation. The main function of each board is to administer the board's assets, mainly property, for the general benefit of beneficiaries. Boards are permitted to spend money on the promotion of health, education, vocational training, and the social and economic welfare of the beneficiaries. They have limited authority to spend money unless it is for a purpose specifically mentioned in the legislation. Each board must deliver an annual financial report to the government. The beneficiaries (as defined by each board and comprising people from a specified area) elect the members of the board. Trustees are appointed for a three-year term by way of voting by beneficiaries at the annual general meeting. Each board determines its own operating and financial policies and strategy. The activities that have the biggest impact on the achievement of the boards' objectives are the management of property and the distribution of funds to the beneficiaries.

The central government does not control the boards. The government was involved in establishing the legislation that governs the activities of the boards, but does not have rights over the relevant activities of the boards.

Example 26

Five local authorities create a separate company to deliver shared services to participating authorities. The company operates under contract to these local authorities. The company's major objective is the provision of services to these local authorities.

The company is owned by all of the participating local authorities with each owning one share and allowed

one vote. The chief executive of each local government is permitted to be a board member of the company. The board of the company is responsible for strategic direction, approval of business cases and monitoring of performance.

For each shared activity there is an advisory group that is responsible for operational management and decision-making in relation to that activity. Each advisory group consists of one representative from each local government.

The benefits of the shared services arrangement are:

- Improved levels and quality of service;
- A co-ordinated and consistent approach to the provision of services;
- Reductions in the cost of support and administrative services;
- Opportunities to develop new initiatives; and
- Economies of scale resulting from a single entity representing many councils in procurement.

If further shared service activities are established that lead to the need for further capital, the company will either issue a new class of equity instrument or will form a controlled entity to hold the interest in the new assets.

The company covers its costs in two ways. It retains a percentage of savings from its bulk purchasing activities and it charges an administrative transaction cost of services provided to the local authorities.

None of the local authorities individually controls the company. In deciding how to account for its interest in the company each local authority would also need to consider whether it is a party to a joint arrangement as defined in IPSAS 37, *Joint Arrangements*.

Example 27

A leisure trust was established as a charity, limited by guarantee, to operate and manage sport and leisure facilities on behalf of a local government. Under the terms of the agreement with the local government, the leisure trust is responsible for the operational management, delivery and development of the city's sports and leisure facilities. The trust is required to operate the existing leisure facilities of the local government. The level of service required, including hours of operation and staffing levels, are specified by the local government. The leisure trust's activities must be consistent with the long-term plan of the local government and a significant portion of the trusts activities are funded by the local government. The leisure trust may not create new facilities nor may it engage in any other activities without the approval of the local government.

If the leisure trust ceases to operate the proceeds must be distributed to another charity with similar purposes. The local government is not responsible for the debts of the leisure trust (its liability is limited to one currency unit).

The local government controls the leisure trust. By specifying in detail the way in which the leisure trust must operate the local government has predetermined the leisure trust's activities and the nature of benefits to the local government.

Example 28

A local government transfers its leisure centers, libraries and theatres into a charitable trust.

In creating the trust the local government expects to benefit from cost savings, increased use of facilities by the public, a more favorable taxation treatment, and better access to funding restricted to charities. The trust can decide the nature and extent of facilities to be provided and can engage in any other charitable purpose. The board of the trust is elected by the community. The local government is entitled to have one representative on the board. The trust is required to retain any surplus and use it for the objectives of the trust.

The local government benefits from the trust's activities but it does not control the trust. The local government cannot direct how the trust uses its resources.

Example 29

Trust A promotes, supports and undertakes programs, actions and initiatives to beautify City A. It receives funding from the local government for various services, including graffiti removal, beautification projects and running environmental events. It reports back to the local government on its performance in delivering these services. If the trust did not exist the local government would need to find some other way to deliver these services. The trust also receives assistance through donations and volunteer work by the local community including local businesses, schools, community groups and individuals.

The trust was originally established by an elected official of the local government.

The governing body of the local government appoints all the trustees (having regard to certain requirements such as balance in gender and location of trustees). There are between five and 12 trustees. The trustees appoint the officers.

Changes to the trust deed must be approved by the trustees and the governing body of the local authority.

If the trust is wound up, surplus assets must be transferred to a similar charitable body in the same geographical area. This transfer of assets is subject to the approval of the local government.

The local government has a mix of rights over the trust including rights to:

(a) Appoint, reassign or remove members of the trust's key management personnel who have the ability to direct the relevant activities;

(b) Approve or veto operating and capital budgets relating to the relevant activities of the trust; and

(c) Veto key changes to the trust, such as the sale of a major asset or of the trust as a whole.

The local government is able to direct the relevant activities (the services) of the trust through its arrangements in such a way that it is able to affect the costs and quality of the services being provided. The local government is exposed to variable returns (both the economic effects of the service and the quality of the service). As it uses its power to affect these returns, the local government controls the trust.

Example 30

Entity A is a public sector body that promotes the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions. It also facilitates access to housing finance and promotes competition and efficiency in the provision of housing finance.

Entity A established a separate trust which has narrowly defined objectives. The trust's functions are to acquire interests in eligible housing loans and issue mortgage bonds. Entity A guarantees the bonds issued by the trust but does not provide ongoing funding – the trust finances its activities through the revenue from its investments. If the trust is wound up the trust's assets are to be distributed to one or more charitable organizations. Entity A does not have on-going decision-making rights over the trust's activities.

Entity A has power over the relevant activities of the trust because it determined the relevant activities of the trust when it established the trust. Entity A is also exposed to variable benefits both through its exposure to the guaranteed bonds and because the trust's activities, determined by Entity A in establishing the trust, help Entity A to achieve its objectives.

Example 31

A funding agency was established by legislation. It is owned by ten local authorities and the central government. It operates on a for-profit basis. The funding agency will raise debt funding and provide that funding to the participating local authorities. Its primary purpose is to provide more efficient funding costs and diversified funding sources for the local authorities. It may undertake any other activities considered by the board to be reasonably related or incidental to, or in connection with, that business.

The main benefits to the participating local authorities are the reduced borrowing costs. The board of the funding agency may decide to pay dividends but dividend payments are expected to be low.

The board is responsible for the strategic direction and control of the funding agency's activities. The board will comprise between four and seven directors with a majority of independent directors.

There is also a shareholders' council which is made up of ten appointees of the shareholders (including an appointee from the central government). The role of the shareholders' council is to:

- Review the performance of the funding agency and the Board, and report to shareholders on that performance;
- Make recommendations to shareholders as to the appointment, removal, replacement and remuneration of directors; and
- Coordinate shareholders' governance decisions.

The funding agency purchases debt securities in accordance with its lending and/or investment policies, as approved by the board and/or shareholders.

To participate in the funding agency as a principal shareholding authority, each local government made an initial capital investment of CU100,000, provided security against future property taxes and agreed to borrow a set portion of its borrowing needs from the funding agency for a period of three years.

Neither the central government nor the participating local authorities control the funding agency. In deciding how to account for their interest in the funding agency the central government and participating local authorities would also need to consider whether they are parties to a joint arrangement as defined in IPSAS 37.

Example 32

Entity A's only business activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for Entity B. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable Entity A automatically puts the receivable to Entity B as agreed separately in a put agreement between Entity A and Entity B. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect Entity A's financial performance. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect Entity A's financial performance—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to Entity B. Therefore, only Entity B's right to manage the assets upon default should be considered when assessing the overall activities of Entity A that significantly affect Entity A's financial performance. In this example, the design of Entity A ensures that Entity B has decision-making authority over the activities that significantly affect the financial performance at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of Entity A. Therefore, the terms of the put agreement together with the founding documents of Entity A lead to the conclusion that Entity B has power over Entity A even though Entity B takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of Entity A.

Exposure, or Rights, to Variable Benefits from another Entity (paragraph AG57)

IE12. The following examples illustrate assessments of whether an entity receives variable benefits from another entity for the purposes of this Standard.

Example 33

Research has shown that family friendly policies at universities, which include the provision of quality early childhood education services, are critical in attracting and retaining students and staff. This is particularly important for attracting high-level staff and post-graduate students, which in turn help uphold the reputation of the University and its ability to obtain research funding.

The above background information is relevant to examples 33A and 33B described below. Each example is considered in isolation.

Example 33A

University A has established seven childcare centers (although University A receives government funding for its educational programs, the childcare centers have been established by the university, not by the government). The centers operate in University owned buildings. Each center has its own manager, staff and budget. The centers are able to be used by university staff and students only. The University is the licensed provider of childcare services. The University has the right to close centers or relocate them to other properties. Because the childcare center is on university property the staff and parents are required to comply with University health and safety policies. The management team of the childcare center has the ability to determine all other operating policies.

University A receives non-financial benefits from having childcare services available on campus. Although University A is not involved in the day-to-day running of the centers, it has the ability to close the centers or change their hours of operation.

University A controls the childcare centers.

Example 33B

University B has made a building available free of charge for the provision of childcare services on the grounds of the University. The childcare services are provided by an incorporated society. All parents using the childcare center are members of the society. The members appoint the Board of the incorporated society and are in charge of the childcare center's operating and financial policies. The childcare center is able to be used by staff, students and the general public, with students having priority. Because the childcare center is on University property the staff and parents are required to comply with University health and safety policies. The incorporated society is the licensed provider of childcare services. If the incorporated society ceases to operate, its resources must be distributed to a similar non-profit organization. The incorporated society could choose not to use the University's buildings in providing its services.

Although the University receives non-financial benefits from having childcare services available on campus it does not have power to direct the relevant activities of the incorporated society. The members of the incorporated society, being the parents of the children, have the power to direct the relevant activities of the incorporated society. The University does not control the incorporated society.

Link between Power and Benefits

Delegated Power (paragraphs AG60–AG63)

IE13. The following examples illustrate assessments of whether an entity is acting as a principal or an agent for the purposes of this Standard.

Example 34

A government department may be responsible for monitoring the performance of another public sector entity. The role of the monitoring department is to make sure the other entity's approach is consistent with the government's goals, provide Ministers with quality assurance about delivery and results and assess and notify the Minister of any risks. The department has an explicit agreement with the Minister which sets out its monitoring responsibilities. The department has the authority to request information from the other entity and provides advice to the Minister on any funding requests from that entity. The department also advises the Minister as to whether the other entity should be permitted to undertake certain activities. The department is acting as an agent of the Minister.

Example 35

A provincial government establishes a trust to co-ordinate fundraising efforts for the benefit of health programs and other health initiatives in the region. The trust also invests and manages designated endowment funds. The funds raised are applied to the government-owned hospitals and aged care facilities in the region.

The provincial government appoints all the trustees on the board of the trust and funds the trust's operating costs. The trust is a registered charity and is exempt from income tax.

Based on the following analysis, the provincial government controls the trust:

(a) The provincial government can give directions to the trustees, and the trustees have the current ability to direct the relevant activities of the trust. The trustees have power over the trust and the provincial government can replace the trustees at its discretion. The trustees' fiduciary obligation to act in the best interest of the beneficiaries does not prevent the provincial government from having power over the trust;

(b) The provincial government has exposure and rights to variable benefits from involvement with the trust;

(c) The provincial government can use its power over the trust to affect the nature or amount of the trust's benefits; and

(d) The activities of the trust are complementary to the activities of the provincial government.

Example 36

A statutory body is established under legislation to deliver services to the community. The statutory body has a governing council that oversees the body's operations and is responsible for its day-to-day operations. The Minister of Health for the provincial government appoints the statutory body's governing council and, subject to the Minister's approval, the statutory body's governing council appoints the chief executive of the body.

The provincial government's Health Department acts as the "system manager" for the provincial public health system. This role includes:

(a) Strategic leadership, such as the development of provincial-wide health service plans;

(b) Directions for the delivery of health services, such as entering into service agreements, capital works approval and management of provincial-wide industrial relations, including employment terms and conditions for the statutory body's employees; and

(c) Monitoring of performance (e.g., quality of health services and financial data) of the authority and taking remedial action when performance does not meet specified performance measures.

The Minister's approval is specifically required for the following major decisions:

(a) Entering into service agreements with the body;

(b) Issuing binding health service directives;

(c) Finalization of health service plans and capital works planning; and

(d) Employment and remuneration of the statutory body's executive staff.

The Health Department receives all its operating and capital funding from the provincial government.

Based on the facts and circumstances outlined above, the Health Department generally acts as an agent of the Minister in relation to the statutory body. This is evident from the restricted decision-making authority held by the Department. The Health Department does not control the statutory body.

As the Minister appoints the statutory body's governing council and approves the major decisions affecting the body's activities, the Minister has the power to direct the relevant activities of the body. Assuming that the other control criteria (variable returns and link between power and benefits) are satisfied, as would be expected, then the Minister would control the statutory body. As a result, the statutory body would be consolidated in the provincial government's whole of government general purpose financial statements.

Example 37

(a) The facts are the same as in Example 36 except that:

(b) The Minister has delegated the power to appoint members of the statutory body's governing council to the Health Department's head;

(c) The appointment of the statutory body's chief executive by the governing council does not require the Minister's approval;

(d) The Minister has delegated the power to approve the major decisions to the Health Department's head; and

(e) Assessments of the Health Department's performance encompass the performance of the statutory body.

The Minister could still exercise the powers that have been delegated to the Health Department's head, but in practice, is unlikely to do so.

In this example, the scope of the decision-making authority held by the Health Department has increased significantly as a result of the delegations by the Minister to the Health Department head. As the Health Department acts as a principal under the delegations, the Department has the current ability to direct the relevant activities of the statutory body so as to achieve the health service objectives of the Health Department. As the Health Department also has the ability to use its power over the authority to affect the nature or amount of the Department's benefits, the Department controls the statutory body.

Example 38

The head of the government department related to finance and taxation (the Treasury) is designated by law as the managing trustee for a number of investment funds. The investment funds are funded by designated taxes and are used to deliver federal welfare programs. The Treasury collects most of the designated tax revenue that relates to these funds. Other agencies also collect some of the revenues and forward these to the Treasury.

The Treasury is delegated the responsibility for administering the funds. For each of the funds, the Treasury immediately invests all receipts credited to the fund, and maintains the invested assets in a designated trust fund until money is needed by the relevant agency.

When the relevant agencies determine that monies are needed, the Treasury redeems securities from the funds' investment balances, and transfers the cash proceeds, including interest earned on the investments, to the program accounts for disbursement by the agency. The Treasury provides monthly and other periodic reporting to each agency. The Treasury charges a management fee for its services.

The Treasury does not control the funds.

Example 39

A local government administers ten funds, each relating to a specific district. The funds hold specified assets (such as land, property and investments) that belonged to districts that previously had their own local government but which have since been amalgamated with other districts. The funds receive the revenue associated with the assets and certain taxes such as the property taxes for that district. The rights of the funds to hold these specified assets and receive the specified revenue are set out in legislation. The assets and revenue of the fund may be applied solely for the benefit of the inhabitants of the former districts.

The local government has wide discretion over spending by the funds. Funds must be applied for the benefit of the community in such a manner as using reasonable judgment the local government thinks proper and having regard to the interests of the inhabitants of the former district. The local government may apply the fund to spending which is not covered by council taxation. Expenditure charged to the fund must be for purposes permitted by law.

The funds are controlled by the local government.

Example 40

A sovereign wealth fund (the fund) is a constitutionally established permanent fund, managed by a government corporation. Legislation specifies that the fund is entitled to receive at least 25% of proceeds from oil sales. The fund sets aside a certain share of these revenues to benefit current and future generations of citizens.

The corporation manages the assets of both the fund and certain other state investments and is remunerated for doing so. The corporation may not spend the fund revenue. Decisions on spending fund revenue are made by the Parliament. Each year, the fund's revenue is split between operating expenses and an annual payment to residents that meet certain criteria specified in legislation.

The corporation does not control the sovereign wealth fund. It acts solely as an agent.

Example 41

A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a 10 per cent pro rata investment in the fund and receives a market-based fee for its services equal to 1 per cent of the net asset value of the fund. The fees are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10 per cent investment. The fund is not required to establish, and has not established, an independent board of directors. The investors do not hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund.

Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund—the investors do not hold substantive rights that could affect the fund manager's decision-making authority. The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of benefits from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.

In this example, consideration of the fund manager's exposure to variability of benefits from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 42

A decision maker establishes, markets and manages a fund that provides investment opportunities to a number of investors. The decision maker (fund manager) must make decisions in the best interests of all investors and in accordance with the fund's governing agreements. Nonetheless, the fund manager has wide decision-making discretion. The fund manager receives a market-based fee for its services equal to 1 per cent of assets under management and 20 per cent of all the fund's surplus if a specified level of surplus is achieved. The fees are commensurate with the services provided.

Although it must make decisions in the best interests of all investors, the fund manager has extensive decision-making authority to direct the relevant activities of the fund. The fund manager is paid fixed and performance-related fees that are commensurate with the services provided. In addition, the remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund, without creating exposure to variability of benefits from the activities of the fund that is of such significance that the remuneration, when considered in isolation, indicates that the fund manager is a principal.

The above fact pattern and analysis applies to examples 42A-42C described below. Each example is considered in isolation.

Example 42A

The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

The fund manager's 2 per cent investment increases its exposure to variability of benefits from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. In this example, although the fund manager has extensive decision-making authority and is exposed to variability of benefits from its interest and remuneration, the fund manager's exposure indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 42B

The fund manager has a more substantial pro rata investment in the fund, but does not have any obligation to fund losses beyond that investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

In this example, the other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's investment together with its remuneration could create exposure to variability of benefits from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The greater the magnitude of, and variability associated with, the fund manager's economic interests (considering its remuneration and other interests in aggregate), the more emphasis the fund manager would place on those economic interests in the analysis, and the more likely the fund manager is a principal.

For example, having considered its remuneration and the other factors, the fund manager might consider a 20 per cent investment to be sufficient to conclude that it controls the fund. However, in different circumstances (i.e., if the remuneration or other factors are different), control may arise when the level of investment is different.

Example 42C

The fund manager has a 20 per cent pro rata investment in the fund, but does not have any obligation to fund losses beyond its 20 per cent investment. The fund has a board of directors, all of whose members are independent of the fund manager and are appointed by the other investors. The board appoints the fund manager annually. If the board decided not to renew the fund manager's contract, the services performed by the fund manager could be performed by other managers in the industry.

Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's 20 per cent investment together with its remuneration creates exposure to variability of benefits from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. However, the investors have substantive rights to remove the fund manager—the board of directors provides a mechanism to ensure that the investors can remove the fund manager if they decide to do so.

In this example, the fund manager places greater emphasis on the substantive removal rights in the analysis. Thus, although the fund manager has extensive decision-making authority and is exposed to variability of benefits of the fund from its remuneration and investment, the substantive rights held by the other investors indicate that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 43

Entity A is created to purchase a portfolio of fixed rate asset-backed securities, funded by fixed rate debt instruments and equity instruments. The equity instruments are designed to provide first loss protection to the debt investors and receive any residual benefits from Entity A. The transaction was marketed to potential debt investors as an investment in a portfolio of asset-backed securities with exposure to the credit risk associated with the possible default of the issuers of the asset-backed securities in the portfolio and to the interest rate risk associated with the management of the portfolio. On formation, the equity instruments represent 10 per cent of the value of the assets purchased. A decision maker (the asset manager) manages the active asset portfolio by making investment decisions within the parameters set out in Entity A's prospectus. For those services, the asset manager receives a market-based fixed fee (i.e., 1 per cent of assets under management) and performance-related fees (i.e., 10 per cent of surplus) if Entity A's surpluses exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity instruments of Entity A. The remaining 65 per cent of the equity instruments, and all the debt instruments of Entity A, are held by a large number of widely dispersed unrelated third party investors. The asset manager can be removed, without cause, by a simple majority decision of the other investors.

The asset manager is paid fixed and performance-related fees that are commensurate with the services provided. The remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund. The asset manager has exposure to variability of returns from the activities of the fund because it holds 35 per cent of the equity instruments and from its remuneration.

Although operating within the parameters set out in Entity A's prospectus, the asset manager has the current ability to make investment decisions that significantly affect Entity A's benefits in the form of returns—the removal rights held by the other investors receive little weighting in the analysis because those rights are held by a large number of widely dispersed investors. In this example, the asset manager places greater emphasis on its exposure to variability of returns of the fund from its net asset/equity interest, which is subordinate to the debt instruments. Holding 35 per cent of the equity instruments creates subordinated exposure to losses and rights to returns of Entity A, which are of such significance that it indicates that the asset manager is a principal. Thus, the asset manager concludes that it controls Entity A.

Example 44

A decision maker (the sponsor) sponsors a multi-seller conduit, which issues short-term debt instruments to unrelated third party investors. The transaction was marketed to potential investors as an investment in a portfolio of highly rated medium-term assets with minimal exposure to the credit risk associated with the possible default by the issuers of the assets in the portfolio. Various transferors sell high quality medium-term asset portfolios to the conduit. Each transferor services the portfolio of assets that it sells to the conduit and manages receivables on default for a market-based servicing fee. Each transferor also provides first loss protection against credit losses from its asset portfolio through over-collateralization of the assets transferred to the conduit. The sponsor establishes the terms of the conduit and manages the operations of the conduit for a market-based fee. The fee is commensurate with the services provided. The sponsor approves the sellers permitted to sell to the conduit, approves the assets to be purchased by the conduit and makes decisions about the funding of the conduit. The sponsor must act in the best interests of all investors.

The sponsor is entitled to any residual benefit from the conduit and also provides credit enhancement and liquidity facilities to the conduit. The credit enhancement provided by the sponsor absorbs losses of up to 5 per cent of all of the conduit's assets, after losses are absorbed by the transferors. The liquidity facilities are not advanced against defaulted assets. The investors do not hold substantive rights that could affect the decision-making authority of the sponsor.

Even though the sponsor is paid a market-based fee for its services that is commensurate with the services provided, the sponsor has exposure to variability of benefits from the activities of the conduit because of its rights to any residual benefits from the conduit and the provision of credit enhancement and liquidity facilities (i.e., the conduit is exposed to liquidity risk by using short-term debt instruments to fund medium-term assets). Even though each of the transferors has decision-making rights that affect the value of the assets of the conduit, the sponsor has extensive decision-making authority that gives it the current ability to direct the activities that most significantly affect the benefits from the conduit (i.e., the sponsor established the terms of the conduit, has the right to make decisions about the assets (approving the assets purchased and the transferors of those assets) and the funding of the conduit (for which new investment must be found on a regular basis)). The right to residual benefits from the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of benefits from the activities of the conduit that is different from that of the other investors. Accordingly, that exposure indicates that the sponsor is a principal and thus the sponsor concludes that it controls the conduit. The sponsor's obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.

Accounting requirements: loss of control (paragraphs 52–55A)

IE13A. The following example illustrates the treatment of a sale of an interest in a controlled entity that does not contain an operation.

Example 44A

A controlling entity has a 100 per cent interest in a controlled entity that does not contain an operation. The controlling entity sells 70 per cent of its interest in the controlled entity to an associate in which it has a 20 per cent interest. As a consequence of this transaction, the controlling entity loses control of the controlled entity. The carrying amount of the net assets of the subsidiary is CU100 and the carrying amount of the interest sold is CU70 (CU70 = CU100 × 70%). The fair value of the consideration received is CU210, which is also the fair value of the interest sold. The investment retained in the former controlled entity is an associate accounted for using the equity method and its fair value is CU90. The gain determined in accordance with paragraphs 54–55, before the elimination required by paragraph 55A, is CU200 (CU200 = CU210 + CU90 – CU100). This gain comprises two parts:

(a) The gain (CU140) resulting from the sale of the 70 per cent interest in the controlled entity to the associate. This gain is the difference between the fair value of the consideration received (CU210) and the carrying amount of the interest sold (CU70). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the existing associate. This is 80 per cent of this gain, that is CU112 (CU112 = CU140 × 80%). The remaining 20 per cent of the gain (CU28 = CU140 × 20%) is eliminated against the carrying amount of the investment in the existing associate.

(b) The gain (CU60) resulting from the remeasurement at fair value of the investment directly retained in the former controlled entity. This gain is the difference between the fair value of the investment retained in the former controlled entity (CU90) and 30 per cent of the carrying amount of the net assets of the controlled entity (CU30 = CU100 × 30%). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the new associate. This is 56 per cent (70% × 80%) of the gain, that is CU34 (CU34 = CU60 × 56%). The remaining 44 per cent of the gain CU26 (CU26 = CU60 × 44%) is eliminated against the carrying amount of the investment retained in the former controlled entity.

Investment Entities (paragraphs AG88–AG106)

IE14. The following examples illustrate assessments of whether an entity is an investment entity for the purposes of this Standard.

Example 45

An entity, Limited Partnership, is formed in 20X1 as a limited partnership with a 10-year life. The offering memorandum states that Limited Partnership's purpose is to invest in entities with rapid growth potential, with the objective of realizing capital appreciation over their life. Entity GP (the general partner of Limited Partnership) provides 1 per cent of the capital to Limited Partnership and has the responsibility of identifying suitable investments for the partnership. Approximately 75 limited partners, who are unrelated to Entity GP, provide 99 per cent of the capital to the partnership.

Limited Partnership begins its investment activities in 20X1. However, no suitable investments are identified by the end of 20X1. In 20X2 Limited Partnership acquires a controlling interest in one entity, ABC Corporation. Limited Partnership is unable to close another investment transaction until 20X3, at which time it acquires equity interests in five additional operating companies. Other than acquiring these

equity interests, Limited Partnership conducts no other activities. Limited Partnership measures and evaluates its investments on a fair value basis and this information is provided to Entity GP and the external investors.

Limited Partnership has plans to dispose of its interests in each of its investees during the 10 year stated life of the partnership. Such disposals include the outright sale for cash, the distribution of marketable equity securities to investors following the successful public offering of the investees' securities and the disposal of investments to the public or other unrelated entities.

From the information provided, Limited Partnership meets the definition of an investment entity from formation in 20X1 to 31 December 20X3 because the following conditions exist:

(a) Limited Partnership has obtained funds from the limited partners and is providing those limited partners with investment management services;

(b) Limited Partnership's only activity is acquiring equity interests in operating companies with the purpose of realizing capital appreciation over the life of the investments. Limited Partnership has identified and documented exit strategies for its investments, all of which are equity investments; and

(c) Limited Partnership measures and evaluates its investments on a fair value basis and reports this financial information to its investors.

In addition, Limited Partnership displays the following characteristics that are relevant in assessing whether it meets the definition of an investment entity:

(d) Limited Partnership is funded by many investors; and

(e) Ownership in Limited Partnership is represented by units of partnership interests acquired through a capital contribution.

Limited Partnership does not hold more than one investment throughout the period. However, this is because it was still in its start-up period and had not identified suitable investment opportunities.

Example 46

High Technology Fund was formed by Technology Corporation to invest in technology start-up companies for capital appreciation. Technology Corporation holds a 70 per cent interest in High Technology Fund and controls High Technology Fund; the other 30 per cent ownership interest in High Technology Fund is owned by 10 investors. Technology Corporation holds options to acquire investments held by High Technology Fund, at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Technology Corporation. No plans for exiting the investments have been identified by High Technology Fund. High Technology Fund is managed by an investment adviser that acts as agent for the investors in High Technology Fund.

Even though High Technology Fund's purpose is investing for capital appreciation and it provides investment management services to its investors, High Technology Fund is not an investment entity because of the following arrangements and circumstances:

(a) Technology Corporation, the controlling entity of High Technology Fund, holds options to acquire investments in investments held by High Technology Fund if the assets developed by those entities would benefit the operations of Technology Corporation. This provides a benefit in addition to capital appreciation or investment revenue; and

(b) The investment plans of High Technology Fund do not include exit strategies for its investments, which are equity investments. The options held by Technology Corporation are not controlled by High Technology Fund and do not constitute an exit strategy.

Example 47

Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned controlled entities, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its controlled entities report their investment properties at fair value in accordance with IPSAS 16, *Investment Property*. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's activities.

Real Estate Entity does not meet the definition of an investment entity because:

(a) Real Estate Entity has a separate substantial activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment revenue, or both;

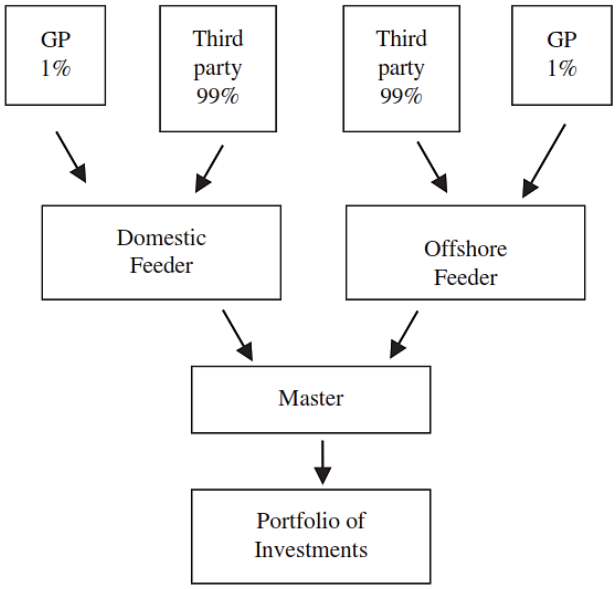
(b) The investment plans of Real Estate Entity do not include specified exit strategies for its investments.

As a result, Real Estate Entity plans to hold those property investments indefinitely; and

(c) Although Real Estate Entity reports its investment properties at fair value in accordance with IPSAS 16, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

Example 48

An entity, Master Fund, is formed in 20X1 with a 10-year life. The equity of Master Fund is held by two related feeder funds. The feeder funds are established in connection with each other to meet legal, regulatory, tax or similar requirements. The feeder funds are capitalized with a 1 per cent investment from the general partner and 99 per cent from equity investors that are unrelated to the general partner (with no party holding a controlling financial interest).



The purpose of Master Fund is to hold a portfolio of investments in order to generate capital appreciation and investment revenue (such as dividends, interest or rental revenue). The investment objective communicated to investors is that the sole purpose of the Master-Feeder structure is to provide investment opportunities for investors in separate market niches to invest in a large pool of assets. Master Fund has identified and documented exit strategies for the equity and non-financial investments that it holds. Master Fund holds a portfolio of short and medium term debt investments, some of which will be held until maturity and some of which will be traded but Master Fund has not specifically identified which investments will be held and which will be traded. Master Fund measures and evaluates substantially all of its investments, including its debt investments, on a fair value basis. In addition, investors receive periodic financial information, on a fair value basis, from the feeder funds. Ownership in both Master Fund and the feeder funds is represented through units of equity.

Master Fund and the feeder funds each meet the definition of an investment entity. The following conditions exist:

(a) Both Master Fund and the feeder funds have obtained funds for the purpose of providing investors with investment management services;

(b) The Master-Feeder structure's purpose, which was communicated directly to investors of the feeder funds, is investing solely for capital appreciation and investment revenue and Master Fund has identified and documented potential exit strategies for its equity and non-financial investments;

(c) Although the feeder funds do not have an exit strategy for their interests in Master Fund, the feeder funds can nevertheless be considered to have an exit strategy for their investments because Master Fund was formed in connection with the feeder funds and holds investments on behalf of the feeder funds; and

(d) The investments held by Master Fund are measured and evaluated on a fair value basis and information about the investments made by Master Fund is provided to investors on a fair value basis through the feeder funds.

Master Fund and the feeder funds were formed in connection with each other for legal, regulatory, tax or similar requirements. When considered together, they display the following characteristics:

(a) The feeder funds indirectly hold more than one investment because Master Fund holds a portfolio of investments;

(b) Although Master Fund is wholly capitalized by the feeder funds, the feeder funds are funded by many investors who are unrelated to the feeder funds (and to the general partner); and

(c) Ownership in the feeder funds is represented by units of equity interests acquired through a capital contribution.

Example 49

Government Corporation A was established with the principal activity of providing equity finance to both existing and new enterprises. Its investment objective is to seek capital appreciation and returns. All acquisitions are made on that basis. The strategy of the Corporation is to increase the fair value of investments in order to realize a gain on disposal. Management assesses and monitors fair value of the investments on a regular basis. The Corporation regularly disposes of investments when they reach a certain stage of maturity so as to provide funds for ongoing investment opportunities. Any surplus is distributed to the government in the form of dividends.

The Corporation also provides investment related services to the government regarding the government's policies for assisting entities in financial distress. It acts as an agent in managing and implementing some of the government's business incentive schemes. The Corporation is not exposed to any losses or risks as a result of its involvement with these schemes.

The Corporation is an investment entity. It meets all three aspects of the definition of an investment entity.

COMPARISON WITH IFRS 10

IPSAS 35, *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (issued in 2011, including amendments up to December 31, 2014). At the time of initially issuing this Standard, the IPSASB had not considered the applicability to public sector entities of certain IFRS referred to in IFRS 10. These standards include:

- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*; and
- IFRS 9, *Financial Instruments*.

The IPSASB has subsequently issued IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* in May 2022.

The main differences between IPSAS 35 and IFRS 10 are as follows:

- IPSAS 35 uses different terminology, in certain instances, from IFRS 10. The most significant examples are the use of the terms “economic entity,” “controlling entity,” and “controlled entity”. The equivalent terms in IFRS 10 are “group,” “parent,” and “subsidiary.” In many cases the terms “investor” and “investee” used in IFRS 10 are replaced by references to “an entity”, “another entity” or “an entity being assessed for control”. The terms “investor” and “investee” have been retained in the application guidance on investment entities as they are appropriate in that context.
- IPSAS 35 defines the term “binding arrangement”. This term is broader than the term “contractual arrangement”, which is used in IFRS 10.
- IFRS 10 identifies typical characteristics of an investment entity separately from the definition of an investment entity. IPSAS 35 does not identify such typical characteristics. However, it does discuss some of these characteristics in the context of the definition of an investment entity.
- IPSAS 35 contains more guidance on non-financial benefits.
- IPSAS 35 does not require that a controlling entity, that is not itself an investment entity, shall consolidate all controlled entities. Instead it requires that such a controlling entity shall present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with IPSAS 35.
- IPSAS 35 contains additional illustrative examples that reflect the public sector context.

IPSAS 36, *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 28, *Investments in Associates and Joint Ventures* published by the International Accounting Standards Board (IASB®). Extracts from IAS 28 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 36, *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 36, *Investments in Associates and Joint Ventures* was issued in January 2015.

Since then, IPSAS 36 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)

Table of Amended Paragraphs in IPSAS 36

Paragraph Affected	How Affected	Affected By
4	Amended	*Improvements to IPSAS* April 2016
6	Deleted	*The Applicability of IPSAS* April 2016
7	Deleted	*The Applicability of IPSAS* April 2016
20	Amended	IPSAS 41 August 2018
20A	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
21	Amended	IPSAS 44 May 2022
24	Amended	IPSAS 41 August 2018 *Improvements to IPSAS* October 2018
25	Amended	IPSAS 41 August 2018
Heading above paragraph	New	IPSAS 44 May 2022
25A	New	IPSAS 44 May 2022
25B	New	IPSAS 44 May 2022

Paragraph Affected	How Affected	Affected By
26	Amended	IPSAS 40 January 2017 IPSAS 41 August 2018
31	Amended	IPSAS 40 January 2017
33	Amended	IPSAS 40 January 2017 IPSAS 45 May 2023
34A	New	IPSAS 40 January 2017
34B	New	IPSAS 40 January 2017
43	Amended	IPSAS 41 August 2018
44	Deleted	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
44A	New	IPSAS 41 August 2018
44B	New	IPSAS 41 August 2018
44C	New	IPSAS 41 August 2018
45	Amended	IPSAS 41 August 2018
51A	New	*The Applicability of IPSAS* April 2016
51B	New	IPSAS 40 January 2017
51C	New	IPSAS 40 January 2017
51D	Amended	*COVID-19: Deferral of Effective Dates* November 2020
51E	New	*Improvements to IPSAS* October 2018
51F	Amended	*COVID-19: Deferral of Effective Dates* November 2020
51G	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
51H	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
51I	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
51J	New	IPSAS 44 May 2022
51K	New	IPSAS 45 May 2023

Paragraph Affected	How Affected	Affected By
52	Amended	IPSAS 33 November 2025
Illustrative Example	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019

IPSAS 36, *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*

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International Public Sector Accounting Standard 36, *Investments in Associates and Joint Ventures*, is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS 36 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in associates and joint ventures.**

3. **This Standard shall be applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.**

4. This Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests. This includes ownership interests arising from investments in the formal equity structure of another entity. A formal equity structure means share capital or an equivalent form of capital, such as units in a property trust. Quantifiable ownership interests may also include ownership interests arising from other investments in which the entity's ownership interest can be measured reliably[1] (for example, interests in a partnership). Where the equity structure of the other entity is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.

5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

6. [Deleted]

7. [Deleted]

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

   An associate is an entity over which the investor has significant influence.

   Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

   Consolidated financial statements are the financial statements of an economic entity in which assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint venturer is a party to a joint venture that has joint control of that joint venture.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in either IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements,* or IPSAS 37, *Joint Arrangements*: benefits, control, controlled entity, controlling entity, economic entity, investment entity, joint operation, power and separate financial statements.

Binding Arrangement

9. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Significant Influence

10. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this Standard. This Standard applies only to those associates in which an entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.

11. If an entity holds a quantifiable ownership interest and it holds, directly or indirectly (e.g., through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

12. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

    (a) Representation on the board of directors or equivalent governing body of the investee;

    (b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions;

    (c) Material transactions between the entity and its investee;

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

13. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e., potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

14. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.

15. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court or an administrator. It could also occur as a result of a binding arrangement.

Equity Method

16. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the surplus or deficit of the investee after the date of acquisition. The investor's share of the investee's surplus or deficit is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's surplus or deficit. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in net assets/equity of the investor.

17. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the surplus or deficit of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets/equity and surplus or deficit.

18. When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 19 applies.

19. In some circumstances, an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the benefits associated with an ownership interest. In such circumstances,

the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the benefits.

20. IPSAS 41, *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IPSAS 41. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IPSAS 41.

20A. An entity also applies IPSAS 41 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 41). An entity applies IPSAS 41 to such long-term interests before it applies paragraph 41 and paragraphs 43–48 of this Standard. In applying IPSAS 41 the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.

21. Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

Application of the Equity Method

22. **An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 23–25.**

Exemptions from Applying the Equity Method

23. An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exception in paragraph 5 of IPSAS 35 or if all of the following apply:

    (a) The entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

    (b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

    (c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.

    (d) The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with IPSAS, in which controlled entities are consolidated or are measured at fair value in accordance with IPSAS 35.

24. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through surplus or deficit in accordance with IPSAS 41. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. An investment entity will, by definition, have made this election for its investments.

25. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through surplus or deficit in accordance with IPSAS 41 regardless of whether the venture capital organization, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. When an entity has an investment in an associate, a portion of which is held indirectly through an investment entity, the entity shall measure that portion of the investment at fair value through surplus or deficit in accordance with IPSAS 41.

Classification as Held for Sale

25A. An entity shall apply IPSAS 44 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IPSAS 41 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

25B. When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

Discontinuing the Use of the Equity Method

26. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**

    (a) **If the investment becomes a controlled entity, the entity shall account for its investment in accordance with IPSAS 40, *Public Sector Combinations* and IPSAS 35.**

    (b) **If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IPSAS 41. The entity shall recognize in surplus or deficit any difference between:**

        (i) **The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and**

        (ii) **The carrying amount of the investment at the date the equity method was discontinued.**

    (c) **When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognized directly in the entity's net assets/equity in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.**

27. **If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.**

Changes in Ownership Interest

28. If an entity's ownership interest in an associate or a joint venture is reduced, but the investment continues to be classified either as an associate or a joint venture respectively, the entity shall transfer directly to accumulated surpluses or deficits the proportion of the gain or loss that had previously been recognized in net assets/equity relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surpluses or deficits on the disposal of the related assets or liabilities.

Equity Method Procedures

29. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IPSAS 35. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

30. An economic entity's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities, associates or joint ventures, the surplus or deficit and net assets taken into account in applying the equity method are those recognized in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 37–39).

31. Gains and losses resulting from "upstream" and "downstream" transactions involving assets that do not constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. The entity's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture.

32. When downstream transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognized in full by the investor. When upstream transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognize its share in those losses.

33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in IPSAS 45, *Property, Plant, and Equipment.* If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

34. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognizes in full in surplus or deficit the portion of the gain or loss on the contribution relating to the monetary or non-monetary assets received.

34A. The gain or loss resulting from a downstream transaction involving assets that constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture is recognized in full in the investor's financial statements.

34B. An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute an operation, as defined in IPSAS 40, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph 53 of IPSAS 35.

35. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

(a) When an entity has included goodwill relating to an associate or a joint venture in the carrying amount of the investment, amortization of that goodwill is not permitted.

(b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the entity's share of the associate or joint venture's surplus or deficit in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made for impairment losses such as for property, plant and equipment or, where relevant, goodwill.

36. **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of an associate or a joint venture the entity either:**

(a) **Obtains, for the purpose of applying the equity method, additional financial information as of the same date as the financial statements of the entity; or**

(b) **Uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements.**

37. **The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**

38. Except as described in paragraph 39, if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

39. **Notwithstanding the requirements in paragraph 38, if an entity has an interest in an associate or a joint venture that is an investment entity, the entity shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities.**

40. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of surplus or deficit after adjusting for the dividends on such shares, whether or not the dividends have been declared.

41. If an entity's share of the deficit of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognizing its share of further deficits. The interest in an associate

or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Deficits recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).

42. After the entity's interest is reduced to zero, additional deficits are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports surpluses, the entity resumes recognizing its share of those surpluses only after its share of the surpluses equals the share of deficits not recognized.

Impairment Losses

43. After application of the equity method, including recognizing the associate's or joint venture's deficits in accordance with paragraph 41, the entity applies paragraphs 44A–44C to determine whether there is any objective evidence that its net investment in the associate or joint venture is impaired.

44. [Deleted]

44A. The net investment in an associate or joint venture is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity about the following loss events:

(a) Significant financial difficulty of the associate or joint venture;

(b) A breach of contract, such as a default or delinquency in payments by the associate or joint venture;

(c) The entity, for economic or legal reasons relating to its associate's or joint venture's financial difficulty, granting to the associate or joint venture a concession that the entity would not otherwise consider;

(d) It becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganization; or

(e) The disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture.

44B. The disappearance of an active market because the associate's or joint venture's equity or financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an associate's or joint venture's credit rating or a decline in the fair value of the associate or joint venture, is not of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

44C. In addition to the types of events in paragraph 44A, objective evidence of impairment for the net investment in the equity instruments of the associate or joint venture includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which

the associate or joint venture operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

45. Whenever application of paragraphs 44A–44C indicates that the investment in an associate or a joint venture may be impaired, an entity applies IPSAS 26, *Impairment of Cash-Generating Assets*, and possibly, IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

46. IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. In determining the value in use of the cash-generating investment in accordance with IPSAS 26, an entity estimates:

(a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or

(b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

47. IPSAS 21 requires that, if the recoverable service amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable service amount. Recoverable service amount is the higher of an asset's fair value, less costs to sell and its value in use. Value in use of a non-cash-generating asset is defined as the present value of the asset's remaining service potential. The present value of the remaining service potential may be assessed using the depreciated replacement cost approach, the restoration cost approach or the service units approach, as appropriate.

48. **The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.**

Separate Financial Statements

49. **An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 12 of IPSAS 34, *Separate Financial Statements.***

Transitional Provisions

50. The transitional provisions for changing from proportionate consolidation to the equity method, or from the equity method to accounting for assets and liabilities in respect of a joint operation are set out in IPSAS 37.

Effective Date and Transition

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 37, and IPSAS 38, *Disclosure of Interests in Other Entities*, at the same time.**

51A. **Paragraphs 6 and 7 were deleted by *The Applicability of IPSAS,* issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

51B. **Paragraph 26 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a**

period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.

51C. **Paragraphs 31 and 33 were amended and paragraphs 34A and 34B added by IPSAS 40, *Public Sector Combinations,* issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments for a period earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.**

51D. **Paragraphs 20, 24, 25, 26, 43, 44 and 45 were amended and paragraphs 44A, 44B and 44C were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

51E. **Paragraph 24 was amended by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019, it shall disclose that fact.**

51F. **Paragraph 20A was added and paragraph 44 deleted by *Long-term Interests in Associates* and *Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41), issued in January 2019. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, for annual financial statements covering periods beginning on or after January 1, 2023, except as specified in paragraphs 51G–51I. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.**

51G. **An entity that first applies the amendments in paragraph 51F at the same time it first applies IPSAS 41 shall apply the transition requirements in IPSAS 41 to the long-term interests described in paragraph 20A.**

51H. **An entity that first applies the amendments in paragraph 51F after it first applies IPSAS 41 shall apply the transition requirements in IPSAS 41 necessary for applying the requirements set out in paragraph 20A to long-term interests. For that purpose, references to the date of initial application in IPSAS 41 shall be read as referring to the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application of the amendments). The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.**

51I. **If an entity does not restate prior periods applying paragraph 51H, at the date of initial application of the amendments it shall recognize in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) any difference between:**

(a) **The previous carrying amount of long-term interests described in paragraph 20A at that date; and**

(b) **The carrying amount of those long-term interests at that date.**

51J. **Paragraph 21 was amended and paragraphs 25A and 25B and the related heading were added by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity**

applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.

51K. **Paragraph 33 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

52. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal and Replacement of IPSAS 7 (December 2006)

53. This Standard supersedes IPSAS 7, *Investments in Associates* (December 2006). IPSAS 7 remains applicable until IPSAS 36 is applied or becomes effective, whichever is earlier.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 36.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching its conclusions on IPSAS 36. As this Standard is based on IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011, including amendments up to December 31, 2014) issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 36 departs from the main requirements of IAS 28 (Amended in 2011), or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as Interests in Other Entities. ED 50, *Investments in Associates and Joint Ventures*, was based on IAS 28 (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures.* In January 2015 the IPSASB issued five new IPSAS, including IPSAS 36. These new IPSAS supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7 and IPSAS 8.

BC3. As a result of combining the accounting for associates and joint ventures the title of the Standard was changed to *Investments in Associates and Joint Ventures.*

BC4. In drafting IPSAS 36 the Board did not reconsider all the requirements of IPSAS 7, *Investments in Associates*. The most significant changes resulted from the decision to require the use of the equity method to account for investments in joint ventures and therefore to combine the accounting for investments in associates and joint ventures in one standard. The Board's views on the use of the equity method to account for investments in joint ventures are discussed in the Basis for Conclusions on IPSAS 37.

Scope

Quantifiable Ownership Interests

BC5. The IPSASB noted that the scope of IPSAS 7 had been limited to investments in associates "where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure". In developing IPSAS 7 the IPSASB noted that it is unlikely equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure. The IPSASB reflected on the intention of this modification and concluded that it was intended to prevent the inappropriate application of that Standard to interests other than ownership interests.

BC6. In contrast with IPSAS 7 this Standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnership arrangements which do not have formal equity structures, the scope limitation in IPSAS 7 was not appropriate. The IPSASB decided that the scope of this Standard should be limited to "quantifiable ownership interests". Respondents supported this proposal, but considered that disclosure of information about an entity's non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed that IPSAS 38, Disclosure of Interests in Other Entities should require the disclosure of non-quantifiable ownership interests.

Temporary Joint Control and Significant Influence

BC7. IPSAS 7 and IPSAS 8, *Interests in Joint Ventures*, did not require application of the equity method or proportionate consolidation when joint control of, or significant influence over, another entity was intended to

be temporary. The IPSASB noted that the IASB had removed these exemptions from the equivalent IFRS in 2003, as a consequence of issuing IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.*

BC8. The IPSASB noted that in developing IPSAS 35, *Consolidated Financial Statements*, it had considered the related issue of whether to incorporate a temporary control exemption in that Standard, and had agreed not to do so. Accordingly, the IPSASB decided not to provide exemptions based on temporary joint control or temporary significant influence in IPSAS 36.

Significant Influence

BC9. The Standard establishes a presumption that an entity has significant influence over an investee if an entity holds an ownership interest in the form of a shareholding or other formal equity structure and holds, directly, or indirectly, (e.g., through controlled entities) 20 per cent or more of the voting power of an investee. The IPSASB noted that the use of 20 percent in establishing a presumption of significant influence came initially from IAS 28 and had also been used in IPSAS 7 (December 2006). In deciding to retain this presumption in the Standard, the IPSASB noted that it was unaware of any public sector reason to use an amount other than 20 per cent.

Uniform Reporting Dates

BC10. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the entity and associate or joint venture of the entity. The IPSASB noted that IAS 28 requires that the most recent available financial statements of the associate or joint venture be used by an entity in applying the equity method and requires adjustments when they are not the same. In addition, IAS 28 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Investment Entities

BC11. Some respondents to ED 50 requested that the IPSASB clarify the application of the equity method by investment entities and by investors with investments in an associate or a joint venture that is an investment entity. Accordingly, the IPSASB:

(a) Clarified that an investment entity will, by definition, have elected to account for investments in associates and joint ventures at fair value through surplus or deficit in accordance with IPSAS 41; and

(b) Required that an entity with an interest in an investment entity associate or an investment entity joint venture, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or investment entity joint venture to its interests in controlled entities.

BC12. The IPSASB noted that IASB constituents had also sought clarification of some aspects of the accounting for investments in investment entity associates and investment entity joint ventures. The IASB issued ED 2014/2 *Investment Entities–Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)* in June 2014 and subsequently issued *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* in December 2014. The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

BC13. At the time that IPSAS 36 was being developed, the IASB amended IFRS 10 and IAS 28 so that the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate

or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3, *Business Combinations*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36 on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards-level requirements for public sector combinations.

BC14. At the time the IPSASB developed ED 60, *Public Sector Combinations,* it reconsidered whether to include guidance on how to account for the sale or contribution of assets between an investor and its associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 36 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 36.

BC15. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 36, to be applied from a date to be determined by the IPSASB.

Revision of IPSAS 36 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC16. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the Preface to International *Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 36 as a result of *Improvements to IPSAS, 2018*

BC17. The IPSASB reviewed the revisions to IAS 28, *Investments in Associates and Joint Ventures*, included in *Annual Improvements to IFRS Standards 2014–2016 Cycle* issued by the IASB in December 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. These amendments clarify that an entity is able to choose between applying the equity method or measuring the investment at fair value for each investment in an associate or joint venture.

BC18. In respect of an investment in an associate or a joint venture that is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including

investment-linked insurance funds, the IPSASB generally concurred that there was no public sector specific reason for not adopting the amendments.

BC19. However, in respect of an interest in an associate or a joint venture that is an investment entity, the IPSASB had already determined, in approving IPSAS 36 (and in contrast to the approach taken in IAS 28), to mandate fair value measurement. Consequently, the IPSASB did not adopt the amendments made to IAS 28, paragraph 36A.

Revision of IPSAS 36 as a result of *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41)

BC20. The IPSASB reviewed the revisions to IAS 28, *Investments in Associates and Joint Ventures*, included in *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) issued by the IASB in October 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 36 as a result of *COVID-19: Deferral of Effective Dates*

BC21. The IPSASB published *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) in January 2019. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC22. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC23. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC24. The Board did not propose any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

ILLUSTRATIVE EXAMPLE—LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

This example accompanies, but is not part of, IPSAS 36.

This example portrays a hypothetical situation illustrating how an entity (investor) accounts for long-term interests that, in substance, form part of the entity's net investment in an associate (long-term interests) applying IPSAS 41, *Financial Instruments*, and IPSAS 36 based on the assumptions presented. The entity applies IPSAS 41 in accounting for long-term interests. The entity applies IPSAS 36 to its net investment in the associate, which includes long-term interests. The analysis in this example is not intended to represent the only manner in which the requirements in IPSAS 36 could be applied.

Assumptions

The investor has the following three types of interests in the associate:

a) O Shares—ordinary shares representing a 40% ownership interest to which the investor applies the equity method. This interest is the least senior of the three interests, based on their relative priority in liquidation.

b) P Shares—non-cumulative preference shares that form part of the net investment in the associate and that the investor measures at fair value through surplus or deficit applying IPSAS 41.

c) LT Loan—a long-term loan that forms part of the net investment in the associate and that the investor measures at amortized cost applying IPSAS 41 with a stated interest rate and an effective interest rate of 5% a year. The associate makes interest-only payments to the investor each year. The LT Loan is the most senior of the three interests.

The LT Loan is not an originated credit-impaired loan. Throughout the years illustrated, there has not been any objective evidence that the net investment in the associate is impaired applying IPSAS 36, nor does the LT Loan become credit-impaired applying IPSAS 41.

The associate does not have any outstanding cumulative preference shares classified as equity, as described in paragraph 40 of IPSAS 36. Throughout the years illustrated, the associate neither declares nor pays dividends on O Shares or P Shares.

The investor has not incurred any legal or constructive obligations, nor made payments on behalf of the associate, as described in paragraph 42 of IPSAS 36. Accordingly, the investor does not recognize its share of the associate's deficits once the carrying amount of its net investment in the associate is reduced to zero.

The amount of the investor's initial investment in O Shares is CU200, in P Shares is CU100 and in the LT Loan is CU100. On acquisition of the investment, the cost of the investment equals the investor's share of the net fair value of the associate's identifiable assets and liabilities.

This table summarizes the carrying amount at the end of each year for P Shares and the LT Loan applying IPSAS 41 but before applying IPSAS 36, and the associate's surplus (deficit) for each year. The amounts for the LT Loan are shown net of the loss allowance.

At the end of	P Shares applying IPSAS 41 (fair value)	LT Loan applying IPSAS 41 (amortized cost)	Surplus (deficit) of the associate
Year 1	CU110	CU90	CU50
Year 2	CU90	CU70	CU(200)
Year 3	CU50	CU50	CU(500)

Year 4	CU40	CU50	CU(150)
Year 5	CU60	CU60	–
Year 6	CU80	CU70	CU500
Year 7	CU110	CU90	CU500

Analysis

Year 1

The investor recognizes the following in Year 1:

Investments in the associate:

Dr. O Shares	CU200	
Dr. P Shares	CU100	
Dr. LT Loan	CU100	
Cr. Cash		CU400

To recognize the initial investment in the associate

Dr. P Shares	CU10	
Cr. Surplus or deficit		CU10

To recognize the change in fair value (CU110 − CU100)

Dr. Surplus or deficit	CU10	
Cr. Loss allowance (LT Loan)		CU10

To recognize an increase in the loss allowance (CU90 − CU100)

Dr. O Shares	CU20	
Cr. Surplus or deficit		CU20

To recognize the investor's share of the associate's surplus (CU50 × 40%)

At the end of Year 1, the carrying amount of O Shares is CU220, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Year 2

The investor recognizes the following in Year 2:

Dr. Surplus or deficit	CU20	
Cr. P Shares		CU20

To recognize the change in fair value (CU90 − CU110)

Dr. Surplus or deficit	CU20	
Cr. Loss allowance (LT Loan)		CU20

To recognize an increase in the loss allowance (CU70 – CU90)

Dr. Surplus or deficit	CU80	
Cr. O Shares		CU80

To recognize the investor's share of the associate's deficit (CU200 × 40%)

At the end of Year 2, the carrying amount of O Shares is CU140, P Shares is CU90 and the LT Loan (net of loss allowance) is CU70.

Year 3

Applying paragraph 20A of IPSAS 36, the investor applies IPSAS 41 to P Shares and the LT Loan before it applies paragraph 41 of IPSAS 36. Accordingly, the investor recognizes the following in Year 3:

Dr. Surplus or deficit	CU40	
Cr. P Shares		CU40

To recognize the change in fair value (CU50 − CU90)

Dr. Surplus or deficit	CU20	
Cr. Loss allowance (LT Loan)		CU20

To recognize an increase in the loss allowance (CU50 – CU70)

Dr. Surplus or deficit	CU200	
Cr. O Shares		CU140
Cr. P Shares		CU50
Cr. LT Loan		CU10

To recognize the investor's share of the associate's deficit in reverse order of seniority as specified in paragraph 41 of IPSAS 36 (CU500 × 40%)

At the end of Year 3, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is CU40.

Year 4

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 4:

Dr. Surplus or deficit	CU10	
Cr. P Shares		CU10

To recognize the change in fair value (CU40 − CU50)

Recognition of the change in fair value of CU10 in Year 4 results in the carrying amount of P Shares being negative CU10. Consequently, the investor recognizes the following to reverse a portion of the associate's deficits previously allocated to P Shares:

Dr. P Shares	CU10	
Cr. Surplus or deficit		CU10

To reverse a portion of the associate's deficits previously allocated to P Shares

Applying paragraph 41 of IPSAS 36, the investor limits the recognition of the associate's deficits to CU40 because the carrying amount of its net investment in the associate is then zero. Accordingly, the investor recognizes the following:

Dr. Surplus or deficit	CU40	
Cr. LT Loan		CU40

To recognize the investor's share of the associate's deficit

At the end of Year 4, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero. There is also an unrecognized share of the associate's deficits of CU30 (the investor's share of the associate's cumulative deficits of CU340 – CU320 deficits recognized cumulatively + CU10 deficits reversed).

Year 5

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 5:

Dr. P Shares	CU20	
Cr. Surplus or deficit		CU20

To recognize the change in fair value (CU60 − CU40)

Dr. Loss allowance (LT Loan)	CU10	
Cr. Surplus or deficit		CU10

To recognize a decrease in the loss allowance (CU60 – CU50)

After applying IPSAS 41 to P Shares and the LT Loan, these interests have a positive carrying amount. Consequently, the investor allocates the previously unrecognized share of the associate's deficits of CU30 to these interests.

Dr. Surplus or deficit	CU30	
Cr. P Shares		CU20
Cr. LT Loan		CU10

To recognize the previously unrecognized share of the associate's deficits

At the end of Year 5, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero.

Year 6

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 6:

Dr. P Shares	CU20	
Cr. Surplus or deficit		CU20

To recognize the change in fair value (CU80 − CU60)

Dr. Loss allowance (LT Loan)	CU10	
Cr. Surplus or deficit		CU10

To recognize a decrease in the loss allowance (CU70 – CU60)

The investor allocates the associate's surplus to each interest in the order of seniority. The investor limits the amount of the associate's surplus it allocates to P Shares and the LT Loan to the amount of equity method deficits previously allocated to those interests, which in this example is CU60 for both interests.

Dr. O Shares	CU80	
Dr. P Shares	CU60	
Dr. LT Loan	CU60	
Cr. Surplus or deficit		CU200

To recognize the investor's share of the associate's surplus (CU500 × 40%)

At the end of Year 6, the carrying amount of O Shares is CU80, P Shares is CU80 and the LT Loan (net of loss allowance) is CU70.

Year 7

The investor recognizes the following in Year 7:

Dr. P Shares	CU30	
Cr. Surplus or deficit		CU30

To recognize the change in fair value (CU110 − CU80)

Dr. Loss allowance (LT Loan)	CU20	
Cr. Surplus or deficit		CU20

To recognize a decrease in the loss allowance (CU90 – CU70)

Dr. O Shares	CU200	
Cr. Surplus or deficit		CU200

To recognize the investor's share of the associate's surplus (CU500 × 40%)

At the end of Year 7, the carrying amount of O Shares is CU280, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Years 1–7

When recognizing interest revenue on the LT Loan in each year, the investor does not take account of any adjustments to the carrying amount of the LT Loan that arose from applying IPSAS 36 (paragraph 20A of IPSAS 36). Accordingly, the investor recognizes the following in each year:

Dr. Cash	**CU5**	
Cr. Surplus or deficit		**CU5**

To recognize interest revenue on LT Loan based on the effective interest rate of 5%

Summary of amounts recognized in surplus or deficit

This table summarizes the amounts recognized in the investor's surplus or deficit.

Items recognized / **During**	**Impairment (losses), including reversals, applying IPSAS 41**	**Gains (losses) of P Shares applying IPSAS 41**	**Share of surplus (deficit) of the associate recognized applying the equity method**	**Interest revenue applying IPSAS 41**
Year 1	CU(10)	CU10	CU20	CU5
Year 2	CU(20)	CU(20)	CU(80)	CU5
Year 3	CU(20)	CU(40)	CU(200)	CU5
Year 4	–	CU(10)	CU(30)	CU5
Year 5	CU10	CU20	CU(30)	CU5
Year 6	CU10	CU20	CU200	CU5
Year 7	CU20	CU30	CU200	CU5

COMPARISON WITH IAS 28 (AMENDED IN 2011)

IPSAS 36, *Investments in Associates and Joint Ventures* is drawn primarily from IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IAS 28 have therefore been replaced by references to the IPSAS dealing with financial instruments.

The main differences between IPSAS 36 and IAS 28 (Amended in 2011) are as follows:

- IPSAS 36 uses different terminology, in certain instances, from IAS 28 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity” and “revenue” in IPSAS 36. The equivalent terms in IAS 28 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 36 applies to all investments where the investor has a quantifiable ownership interest. IAS 28 (Amended in 2011) does not contain a similar requirement. However, it is unlikely that equity accounting could be applied unless there was a quantifiable ownership interest.
- Where an entity is precluded by IPSAS 29 from measuring the retained interest in a former associate or joint venture at fair value, IPSAS 36 permits an entity to use carrying amount as the cost on initial recognition of the financial asset. IAS 28 (Amended in 2011) requires that the retained interest be measured at fair value.
- IPSAS 36 requires that an entity with an interest in an associate or a joint venture that is an investment entity, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities. IAS 28 (Amended in 2011) permits an entity with an interest in an associate or a joint venture that is an investment entity to retain the fair value measurement applied by that investment entity associate or joint venture.

IPSAS 37, *JOINT ARRANGEMENTS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 11, *Joint Arrangements* published by the International Accounting Standards Board (IASB®). Extracts from IFRS 11 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 37, *JOINT ARRANGEMENTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 37, *Joint Arrangements* was issued in January 2015.

Since then, IPSAS 37 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in IPSAS 37

Paragraph Affected	How Affected	Affected By
5	Deleted	*The Applicability of IPSAS* April 2016
6	Deleted	*The Applicability of IPSAS* April 2016
24A	New	IPSAS 40 January 2017
28	Amended	IPSAS 41 August 2018
30	Amended	IPSAS 41 August 2018
32	Amended	IPSAS 40 January 2017
41	Amended	IPSAS 41 August 2018
41A	New	IPSAS 40 January 2017
42A	New	*The Applicability of IPSAS* April 2016
42B	New	IPSAS 40 January 2017
42C	New	IPSAS 40 January 2017
42D	Amended	*COVID-19: Deferral of Effective Dates* November 2020
42E	New	*Improvements to IPSAS* October 2018
43	Amended	IPSAS 33 November 2025
AG11	Amended	IPSAS 41 August 2018
AG33A	Amended	IPSAS 40 January 2017 IPSAS 41 August 2018
AG33B	New	IPSAS 40 January 2017

Paragraph Affected	How Affected	Affected By
AG33C	New	IPSAS 40 January 2017
AG33CA	New	*Improvements to IPSAS* October 2018
AG33D	New	IPSAS 40 January 2017

IPSAS 37, *JOINT ARRANGEMENTS*

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International Public Sector Accounting Standard 37, *Joint Arrangements*, is set out in paragraphs 1–44. All the paragraphs have equal authority. IPSAS 37 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., joint arrangements).

2. To meet the objective in paragraph 1, this Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.**

4. **This Standard shall be applied by all entities that are a party to a joint arrangement.**

5. [Deleted]

6. [Deleted]

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint operator is a party to a joint operation that has joint control of that joint operation.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint venturer is a party to a joint venture that has joint control of that joint venture.

A party to a joint arrangement is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

A separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* or IPSAS 36, *Investments in Associates and Joint Ventures*: benefits, control, equity method, power, protective rights, relevant activities, separate financial statements and significant influence.

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Joint Arrangements (see paragraphs AG2–AG33)

9. **A joint arrangement is an arrangement of which two or more parties have joint control.**

10. **A joint arrangement has the following characteristics:**

    (a) **The parties are bound by a binding arrangement (see paragraphs AG2–AG4).**

    (b) **The binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 12–18).**

11. **A joint arrangement is either a joint operation or a joint venture.**

Joint Control

12. **Joint control is the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement**.

13. **An entity that is a party to an arrangement shall assess whether the binding arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the benefits from the arrangement (i.e., the relevant activities).**

14. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.

15. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.

16. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Standard distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

17. **An entity will need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs AG5–AG11).**

18. **If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.**

Types of Joint Arrangement

19. **An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.**

20. **An entity applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering**

its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).

21. Sometimes the parties are bound by a framework agreement that sets up the general terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.

22. **If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.**

Financial Statements of Parties to a Joint Arrangement (see paragraphs AG33A–AG37)

Joint Operations

23. **A joint operator shall recognize in relation to its interest in a joint operation:**

(a) **Its assets, including its share of any assets held jointly;**

(b) **Its liabilities, including its share of any liabilities incurred jointly;**

(c) **Its revenue from the sale of its share of the output arising from the joint operation;**

(d) **Its share of the revenue from the sale of the output by the joint operation; and**

(e) **Its expenses, including its share of any expenses incurred jointly.**

24. **A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSAS applicable to the particular assets, liabilities, revenues and expenses.**

24A. **When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations,* it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSAS, that do not conflict with the guidance in this Standard, and disclose the information that is required in those IPSAS in relation to acquisitions. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes an operation. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs AG33A–AG33D.**

25. The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs AG34–AG37.

26. **A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 23–25 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the IPSAS applicable to that interest.**

Joint Ventures

27. **A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IPSAS 36, *Investments in Associates and Joint Ventures,* unless the entity is exempted from applying the equity method as specified in that Standard.**

28. **A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with the IPSAS dealing with financial instruments, being IPSAS 28, *Financial Instruments: Presentation,* IPSAS 30, *Financial Instruments: Disclosures,* and IPSAS 41, *Financial Instruments* unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IPSAS 36.**

Separate Financial Statements

29. **In its separate financial statements, a joint operator or joint venturer shall account for its interest in:**

    (a) **A joint operation in accordance with paragraphs 23–25; and**

    (b) **A joint venture in accordance with paragraph 12 of IPSAS 34.**

30. **In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:**

    (a) **A joint operation in accordance with paragraph 26; and**

    (b) **A joint venture in accordance with IPSAS 41, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 12 of IPSAS 34.**

Transitional Provisions

31. **Notwithstanding the requirements of paragraph 33 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3, for the annual period immediately preceding the first annual period for which this Standard is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.**

Joint Ventures—Transition from Proportionate Consolidation to the Equity Method

32. **When changing from proportionate consolidation to the equity method, an entity shall recognize its investment in the joint venture as at the beginning of the immediately preceding period. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.**

33. **The opening balance of the investment determined in accordance with paragraph 32 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 43–48 of IPSAS 36 to the opening balance of the investment to assess whether the investment is impaired and shall recognize any impairment loss as an adjustment to accumulated surplus or deficit at the beginning of the immediately preceding period.**

34. **If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognize the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognize the corresponding liability but it shall adjust accumulated surplus or deficit at the beginning of the immediately preceding period. The entity shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the beginning of the immediately preceding period and at the date at which this Standard is first applied.**

35. **An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the immediately preceding period. That disclosure shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs 32–36.**

36. **After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with IPSAS 36.**

Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities

37. **When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the immediately preceding period, derecognize the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 41 of IPSAS 36 and recognize its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.**

38. **An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the binding arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the immediately preceding period on the basis of the information used by the entity in applying the equity method.**

39. **Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 41 of IPSAS 36 and the net amount of the assets and liabilities, including any goodwill, recognized shall be:**

    (a) **Offset against any goodwill relating to the investment with any remaining difference adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is higher than the investment (and any other items that formed part of the entity's net investment) derecognized.**

    (b) **Adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is lower than the investment (and any other items that formed part of the entity's net investment) derecognized.**

40. **An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted against accumulated surplus or deficit, at the beginning of the immediately preceding period.**

Transitional Provisions in an Entity's Separate Financial Statements

41. **An entity that, in accordance with paragraph 58 of IPSAS 6, *Consolidated and Separate Financial Statements,* was previously accounting in its separate financial statements for its interest in a joint operation as an investment using the equity method, at cost or in accordance with IPSAS 41 shall:**

    (a) **Derecognize the investment and recognize the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs 37–39.**

    (b) **Provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted in accumulated surplus or deficit, at the beginning of the immediately preceding period.**

Accounting for acquisitions of interests in joint operations

41A. IPSAS 40, *Public Sector Combinations*, issued in January 2017, added paragraphs 24A, 42B, and AG33A–AG33D. An entity shall apply those amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute operations, as defined in IPSAS 40, for those acquisitions occurring from the beginning of the first period in which it applies those amendments. Consequently, amounts recognized for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.

Effective Date

42. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 36 and IPSAS 38, *Disclosure of Interests in Other Entities*, at the same time.**

42A. **Paragraphs 5 and 6 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

42B. **Paragraphs 24A, 41A and AG33A–AG33D were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

42C. **Paragraph 32 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

42D. **Paragraphs 28, 30, 41, AG11 and AG33A were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

42E. **Paragraph AG33CA was added by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply this amendment to transactions in which it obtains joint control on or after the beginning of the first annual financial statements covering periods beginning on or after January 1, 2019. Earlier**

application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019, it shall disclose that fact.

43. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal and Replacement of IPSAS 8 (December 2006)

44. This Standard supersedes IPSAS 8, *Interests in Joint Ventures* (December 2006). IPSAS 8 remains applicable until IPSAS 37 is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 37.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 37.

Joint Arrangements

Binding Arrangement (paragraph 8)

AG2. Consistent with the definition of binding arrangements in this Standard, this discussion of binding arrangements is also relevant to enforceable arrangements created by legislative or executive authority.

AG3. When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the binding arrangement, or some aspects of the binding arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

AG4. The binding arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The binding arrangement generally deals with such matters as:

(a) The purpose, activity and duration of the joint arrangement.

(b) How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.

(c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the binding arrangement establishes joint control of the arrangement (see paragraphs AG5–AG11).

(d) The capital or other contributions required of the parties.

(e) How the parties share assets, liabilities, revenues, expenses or surplus or deficit relating to the joint arrangement.

Joint Control (paragraphs 12–18)

AG5. In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. IPSAS 35, *Consolidated Financial Statements*, defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable benefits from their involvement with the arrangement and have the ability to affect those benefits through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the benefits from the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

AG6. After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgment.

AG7. Sometimes the decision-making process that is agreed upon by the parties in their binding arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the binding arrangement between them specifies that at least 51 per cent

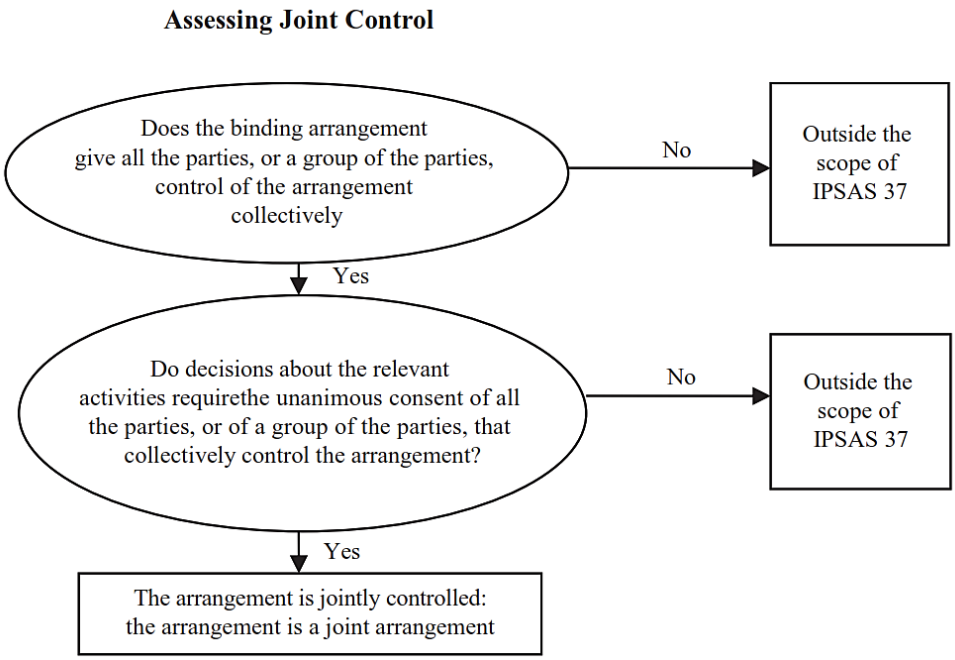
of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

AG8. In other circumstances, the binding arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the binding arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

Application Examples
Example 1 Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their binding arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.
Example 2 Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e., either A and B or A and C). In such a situation, to be a joint arrangement the binding arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.
Example 3 Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the binding arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

AG9. The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.

AG10. A binding arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.



AG11. When an arrangement is outside the scope of IPSAS 37, *Joint Arrangements*, an entity accounts for its interest in the arrangement in accordance with relevant IPSAS, such as IPSAS 35, IPSAS 36, *Investments in Associates and Joint Ventures* or IPSAS 41, *Financial Instruments*.

Types of Joint Arrangement (paragraphs 19–22)

AG12. Joint arrangements are established for a variety of purposes (e.g., as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.

AG13. Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.

AG14. The classification of joint arrangements required by this Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of operations. This Standard classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs AG16–AG33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a Joint Arrangement

AG15. As stated in paragraph AG14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

(a) The structure of the joint arrangement (see paragraphs AG16–AG21).

(b) When the joint arrangement is structured through a separate vehicle:

(i) The legal form of the separate vehicle (see paragraphs AG22–AG24);

(ii) The terms of the binding arrangement (see paragraphs AG25–AG28); and

(iii) When relevant, other facts and circumstances (see paragraphs AG29–AG33).

Structure of the Joint Arrangement

Joint Arrangements not Structured Through a Separate Vehicle

AG16. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

AG17. The binding arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to deliver services or manufacture a product together, with each party being responsible for specific areas and each using its own assets and incurring its own liabilities. The binding arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognizes in its financial statements the assets and liabilities used for the specific task, and recognizes its share of the revenues and expenses in accordance with the binding arrangement.

AG18. In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the binding arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses in accordance with the binding arrangement.

Joint Arrangements Structured through a Separate Vehicle

AG19. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

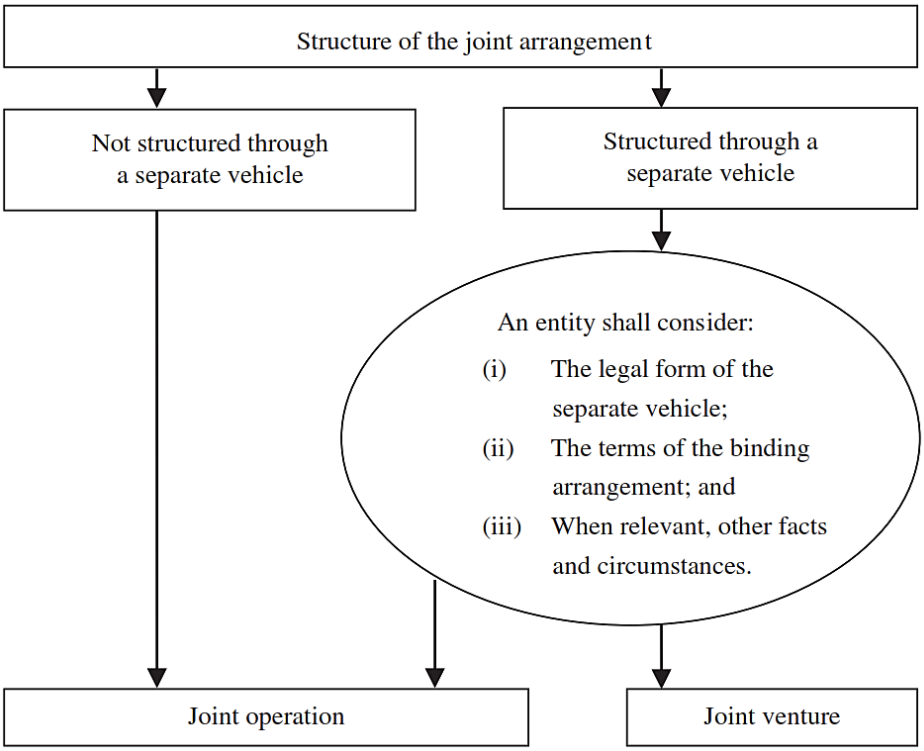
AG20. Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement, that are held in the separate vehicle.

AG21. As stated in paragraph AG15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the binding arrangement and, when relevant, any other facts and circumstances give them:

(a) Rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation); or

(b) Rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

Classification of a Joint Arrangement: Assessment of the Parties' Rights and Obligations Arising from the Arrangement



The Legal Form of the Separate Vehicle

AG22. The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.

AG23. For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their binding arrangement (see paragraphs AG25–AG28) and, when relevant, other facts and circumstances (see paragraphs AG29–AG33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.

AG24. The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

Assessing the Terms of the Binding Arrangement

AG25. In many cases, the rights and obligations agreed to by the parties in their binding arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.

AG26. In other cases, the parties use the binding arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

Application Example
Example 4 Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement. However, the parties modify the features of the corporation through their binding arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such binding modifications to the features of a corporation can cause an arrangement to be a joint operation.

AG27. The following table compares common terms in binding arrangements of parties to a joint operation and common terms in binding arrangements of parties to a joint venture. The examples of the binding terms provided in the following table are not exhaustive.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
The terms of the binding arrangement	The binding arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
Rights to assets	The binding arrangement establishes that the parties to the joint arrangement share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The binding arrangement establishes that the assets brought into the arrangement or subse-quently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The binding arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in	The binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.

Assessing the Terms of the Binding Arrangement		
	Joint Operation	**Joint Venture**
	pro-portion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them). The binding arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The binding arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both. The binding arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, surplus or deficit	The binding arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the binding arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the surplus or deficit relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement establishes each party's share in the surplus or deficit relating to the activities of the arrangement.
Guarantees	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

AG28. When the binding arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs AG29–AG33) for the purposes of classifying the joint arrangement.

Assessing Other Facts and Circumstances

AG29. When the terms of the binding arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

AG30. A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The binding terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

AG31. When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the service potential or economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

AG32. The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

Application Example

Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The binding arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the binding arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and circumstances are relevant:

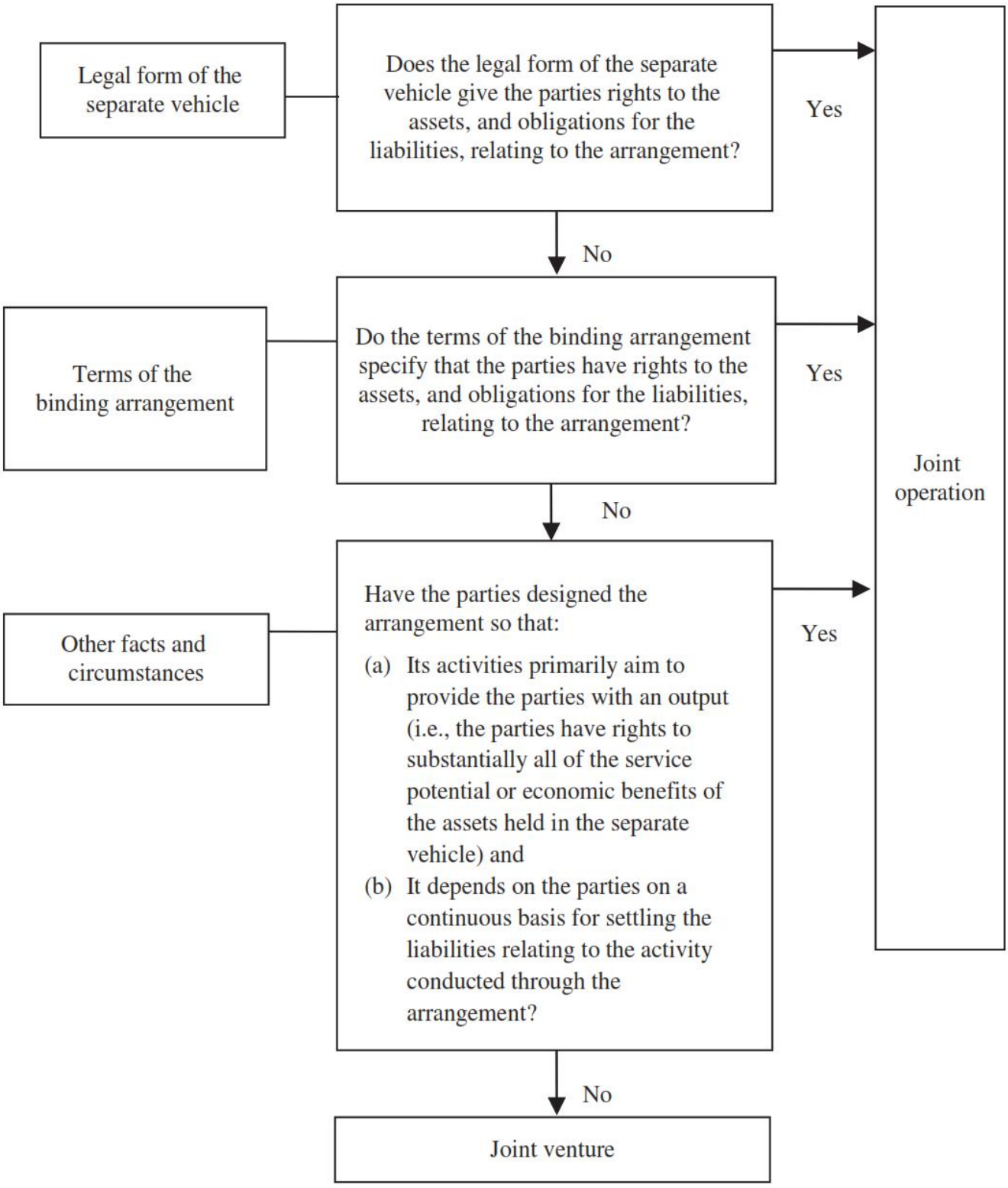
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the service potential or economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the binding arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

AG33. The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

Classification of a Joint Arrangement Structured Through a Separate Vehicle



Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

Accounting for Acquisitions of Interests in Joint Operations

AG33A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSAS, that do not conflict with the guidance in this Standard and disclose the information required by those IPSAS in relation to acquisitions. The principles on acquisition accounting that do not conflict with the guidance in this Standard include but are not limited to:

(a) Measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in IPSAS 40 and other IPSAS;

(b) Recognizing acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognized in accordance with IPSAS 28 and IPSAS 41;

(c) Recognizing the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and

(d) Testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by IPSAS 26, *Impairment of Cash-Generating Assets*, for goodwill acquired in an acquisition.

AG33B. Paragraphs 24A and AG33A also apply to the formation of a joint operation if, and only if, an existing operation, as defined in IPSAS 40, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute operations to the joint operation on its formation.

AG33C. A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

AG33CA. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes an operation as defined in IPSAS 40. In such cases, previously held interests in the joint operation are not remeasured.

AG33D. Paragraphs 24A and AG33A–AG33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

Accounting for Sales or Contributions of Assets to a Joint Operation

AG34. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognize gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

AG35. When such transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognized fully by the joint operator.

Accounting for Purchases of Assets from a Joint Operation

AG36. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognize its share of the gains and losses until it resells those assets to a third party.

AG37. When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognize its share of those losses.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 37.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 37. As this Standard is based on IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014), issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 37 departs from the main requirements of IFRS 11.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 51, *Joint Arrangements*, was based on IFRS 11, *Joint Arrangements*, having regard to the relevant public sector modifications in IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSAS, including IPSAS 37. These new IPSAS supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8.

Classification of Joint Arrangements

BC3. IPSAS 37 classifies joint arrangements as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets. This differs from IPSAS 8 which referred to three types of arrangements, being jointly controlled entities, jointly controlled operations and jointly controlled assets. The IPSASB agreed that the classification of joint arrangements in IPSAS 37 should be consistent with IFRS 11.

Elimination of Accounting Option

BC4. IPSAS 37 requires that a joint venturer account for its interest in a joint venture using the equity method. Previously IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. The IPSASB acknowledged the IASB's rationale for removing proportionate consolidation as a method for accounting for interests in joint ventures and agreed that the accounting treatments permitted by IPSAS 37 should be consistent with IFRS 11.

BC5. The IASB's reasons for removing proportionate consolidation as a method for accounting for interests in joint ventures included the following:

(a) The equity method is the most appropriate method to account for joint ventures because it is a method that accounts for an entity's interest in the net assets of an investee.

(b) The approach in IFRS 11 is consistent with the IASB's view of what constitutes the economic substance of an entity's interests in joint arrangements.

(c) IFRS 11 will require consistent accounting for arrangements with similar rights.

(d) The IASB did not consider that the elimination of proportionate consolidation would cause a loss of information for users of financial statements (having regard to the disclosure requirements in IFRS 12, *Disclosure of Interests in Other Entities*).

BC6. The IPSASB took the view there were no public sector differences that warranted a different approach to that taken by the IASB.

Acquisition of an Interest in a Joint Operation

BC7. At the time that IPSAS 37 was being developed, the IASB sought feedback on proposals to amend IFRS 11 by adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, as defined in IFRS 3, *Business Combinations*. The IASB issued *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)* in May 2014. The IPSASB agreed not to incorporate such guidance in IPSAS 37 on the grounds that it would be more appropriate to consider such guidance in the context of drafting standards-level requirements for public sector combinations.

BC8. At the time the IPSASB developed IPSAS 40, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the acquisition of an interest in a joint operation that constitutes an operation. The IPSASB reviewed the guidance issued by the IASB in Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) and did not identify a public sector reason to depart from that guidance. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 37.

Revision of IPSAS 37 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC9. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 37 as a result of *Improvements to IPSAS, 2018*

BC10. The IPSASB reviewed the revisions to IFRS 11, *Joint Arrangements*, included in *Annual Improvements to IFRS® Standards 2015–2017 Cycle* issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

ILLUSTRATIVE EXAMPLES

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Illustrative Examples

These examples accompany, but are not part of, IPSAS 37.

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying IPSAS 37 in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 37.

Example 1 – Construction Services

IE2. A and B (the parties) are two entities whose activities include the provision of many types of public and private construction services. Entity A is a private sector entity. Entity B is government owned. They set up a binding arrangement to work together for the purpose of fulfilling a contract with a government for the design and construction of a road between two cities. The binding arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road. The joint arrangement will have no further involvement once the road has been completed. The road will be transferred to the government at that point.

IE3. The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

IE4. The binding arrangement between A and B additionally establishes that:

(a) The rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;

(b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and

(c) The surplus or deficit resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

IE5. For the purposes of co-ordinating and overseeing the activities, A and B appoint a project manager, who will be an employee of one of the parties. After a specified time, the role of the project manager will rotate to an employee of the other party. A and B agree that the activities will be executed by the employees on a "no gain or loss" basis.

IE6. In accordance with the terms specified in the contract with the government, entity Z invoices the construction services to the government on behalf of the parties.

Analysis

IE7. The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their binding arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation. It is not a service concession arrangement.

IE8. A and B each recognize in their financial statements their share of the assets (e.g., property, plant, and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g., accounts payable to third parties) on the basis of their agreed participation share. Each also recognizes

its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

Example 2 – Service Centre Operated Jointly

IE9. Two entities (the parties) set up a separate vehicle (entity X) for the purpose of establishing and operating a joint service center. The binding arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the allocation of office space to services, managing the car park, maintaining the center and its equipment, such as lifts, building the reputation of the center and managing the client base for the center.

IE10. The terms of the binding arrangement are such that:

(a) Entity X owns the service center. The binding arrangement does not specify that the parties have rights to the service center.

(b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.

(c) The parties have the right to sell or pledge their interests in entity X.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity X.

Analysis

IE11. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity X.

IE12. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE13. The parties recognize their rights to the net assets of entity X as investments and account for them using the equity method.

Example 3 – Joint Provision of Assisted Living Services

IE14. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. Entity X and entity Y establish a separate company (entity Z). The legal form of the company confers the rights to the assets and obligations for liabilities to the company itself. The agreement between entity X and entity Y requires all decisions be made jointly. The agreement also confirms:

(a) Entity X will provide the assisted living services. Entity Y will construct the premises.

(b) The assets of the arrangement are owned by entity Z, the company. Neither party will be able to sell, pledge, transfer or otherwise mortgage the assets of entity Z.

(c) The liability of the parties is limited to any unpaid capital of entity Z.

(d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity Z.

(e) Profits of entity Z will be distributed to entity X and entity Y 40:60, being the parties' respective interests in the arrangement.

Analysis

IE15. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity Z.

IE16. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, or that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE17. The parties recognize their rights to the net assets of entity Z as investments and account for them using the equity method.

Variation

IE18. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. The agreement between entity X and entity Y requires all decisions to be made jointly. The agreement confirms:

(a) Entity X will supply operational assets including office equipment, motor vehicles and furniture and fittings for the assisted living premises.

(b) Entity Y will construct the premises and will continue to own the premises. Entity Y will be responsible for the ongoing maintenance of the premises. Entity Y cannot sell the premises without first offering entity X the right to purchase the premises. Entity Y is entitled to 100% of any gain on eventual sale of the premises.

(c) The services will be delivered through a new entity, entity Z, established for this purpose.

(d) Each party will pay for 50% of the expenses for operating the services.

(e) Any profits from providing the assisted living services will be shared equally between entity X and entity Y.

(f) Entity X will be responsible for managing staff and for any liabilities arising from personal grievance claims and health and safety issues.

(g) Entity Y will be responsible for any liabilities to make good any defects in the premises or alterations to the premises required to meet health and safety codes and changes in those codes.

Analysis of Variation

IE19. Although the services are delivered through a separate vehicle, entity X and entity Y continue to own the assets used to provide the services. The joint arrangement is a joint operation.

IE20. Entity X and entity Y each recognize in their financial statements their own assets and liabilities. They also recognize their share of the revenue and expenses resulting from the provision of assisted living services through entity Z.

Example 4 – Joint Manufacturing and Distribution of a Product

IE21. Entities A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.

IE22. The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:

(a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the binding arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.

(b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the binding arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE23. In addition, the framework agreement establishes:

(a) That the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;

(b) The commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.

(c) That any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

Analysis

IE24. The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.

IE25. The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the binding arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for

the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:

(a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the service potential or economic benefits of the assets of the manufacturing arrangement.

(b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfill the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.

IE26. The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the binding arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.

IE27. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.

IE28. A and B each recognize in their financial statements their share of the assets (e.g., property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (e.g., accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognizes its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.

IE29. The parties recognize their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Variation

IE30. Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.

IE31. The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.

IE32. The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

Analysis of Variation

IE33. The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the binding terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the

manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.

IE34. The variation has no effect on the classification of the distribution arrangement as a joint venture.

IE35. The parties recognize their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Example 5 – Bank Operated Jointly

IE36. Bank A, a government owned bank, and bank B, a privately owned bank, (the parties) agreed to combine certain corporate, investment banking, asset management and service activities by establishing a separate vehicle (bank C). Both parties expect the arrangement to benefit them in different ways. Bank A believes that the arrangement could enable it to achieve its strategic plans to improve its profitability through an enlarged offering of products and services. Bank B expects the arrangement to reinforce its offering in financial savings and market products.

IE37. The main feature of bank C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). Banks A and B each have a 40 per cent ownership interest in bank C, with the remaining 20 per cent being listed and widely held. The agreement between bank A and bank B establishes joint control of the activities of bank C.

IE38. In addition, bank A and bank B entered into an irrevocable agreement under which, even in the event of a dispute, both banks agree to provide the necessary funds in equal amount and, if required, jointly and severally, to ensure that bank C complies with the applicable legislation and banking regulations, and honors any commitments made to the banking authorities. This commitment represents the assumption by each party of 50 per cent of any funds needed to ensure that bank C complies with legislation and banking regulations.

Analysis

IE39. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of bank C, but it establishes that the parties have rights to the net assets of bank C. The commitment by the parties to provide support if bank C is not able to comply with the applicable legislation and banking regulations is not by itself a determinant that the parties have an obligation for the liabilities of bank C. There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets of bank C and that the parties have an obligation for the liabilities of bank C. The joint arrangement is a joint venture.

IE40. Both banks A and B recognize their rights to the net assets of bank C as investments and account for them using the equity method.

Example 6 – Oil and Gas Exploration, Development and Production Activities

IE41. Entities A and B (the parties) set up a separate vehicle (entity H) and a Joint Operating Agreement (JOA) to undertake oil and gas exploration, development and production activities in country O. The main feature of entity H's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE42. Country O has granted entity H permits for the oil and gas exploration, development and production activities to be undertaken in a specific assigned block of land (fields).

IE43. The agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarized below.

Agreement

IE44. The board of entity H consists of a director from each party. Each party has a 50 per cent holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

IE45. The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.

IE46. The Operating Committee approves the budgets and work programs relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programs.

IE47. The JOA specifies that the rights and obligations arising from the exploration, development and production activities shall be shared among the parties in proportion to each party's holding in entity H. In particular, the JOA establishes that the parties share:

(a) The rights and the obligations arising from the exploration and development permits granted to entity H (e.g., the permits, rehabilitation liabilities, any royalties and taxes payable);

(b) The production obtained; and

(c) All costs associated with all work programs.

IE48. The costs incurred in relation to all the work programs are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

Analysis

IE49. The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets (e.g., exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (e.g., all costs and obligations arising from the work programs) that are held in entity H. The joint arrangement is a joint operation.

IE50. Both entity A and entity B recognize in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognizes its share of the revenue (from the sale of their share of the production) and its share of the expenses.

Example 7 – Liquefied Natural Gas Arrangement

IE51. Entity A owns an undeveloped gas field that contains substantial gas resources. Entity A determines that the gas field will be economically viable only if the gas is sold to customers in overseas markets. To do so, a liquefied natural gas (LNG) facility must be built to liquefy the gas so that it can be transported by ship to the overseas markets.

IE52. Entity A enters into a joint arrangement with entity B in order to develop and operate the gas field and the LNG facility. Under that arrangement, entities A and B (the parties) agree to contribute the gas field and cash, respectively, to a new separate vehicle, entity C. In exchange for those contributions, the parties each take

a 50 per cent ownership interest in entity C. The main feature of entity C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

IE53. The binding arrangement between the parties specifies that:

(a) Entities A and B must each appoint two members to the board of entity C. The board of directors must unanimously agree the strategy and investments made by entity C.

(b) Day-to-day management of the gas field and LNG facility, including development and construction activities, will be undertaken by the staff of entity B in accordance with the directions jointly agreed by the parties. Entity C will reimburse B for the costs it incurs in managing the gas field and LNG facility.

(c) Entity C is liable for taxes and royalties on the production and sale of LNG as well as for other liabilities incurred in the ordinary course of business, such as accounts payable, site restoration and decommissioning liabilities.

(d) Entities A and B have equal shares in the surplus from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends or similar distributions made by entity C.

IE54. The binding arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.

IE55. The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of the gas field and construction of the LNG facility. The estimated total cost of the development and construction is CU1,000 million.[1]

IE56. The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to entities A and B only if entity C defaults on the loan arrangement during the development of the field and construction of the LNG facility. The lending syndicate agrees that it will not have recourse to entities A and B once the LNG facility is in production because it has assessed that the cash inflows that entity C should generate from LNG sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to entities A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

Analysis

IE57. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity C, but they establish that the parties have rights to the net assets of entity C. The recourse nature of the financing arrangement during the development of the gas field and construction of the LNG facility (i.e., entities A and B providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (i.e., the loan is a liability of entity C). Entities A and B have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the development and construction phase.

IE58. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets of entity C and that the parties have an obligation for the liabilities of entity C. The joint arrangement is a joint venture.

IE59. The parties recognize their rights to the net assets of entity C as investments and account for them using the equity method.

[1] In this example monetary amounts are denominated in 'currency units (CU)'.

Example 8—Accounting for acquisitions of interests in joint operations in which the activity constitutes an operation

IE60. Municipalities A, B and C have joint control of Joint Operation D whose activity constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations*.

IE61. Municipality E acquires municipality A's 40 per cent ownership interest in Joint Operation D at a cost of CU300 and incurs acquisition-related costs of CU50.

IE62. The binding arrangement between the parties that Municipality E joined as part of the acquisition establishes that Municipality E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Municipality E's share in the assets and liabilities related to Joint Operation D as established in the binding arrangement between the parties:

	Municipality E's share in the assets and liabilities related to Joint Operation D
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%
Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

IE63. Municipality E recognizes in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE64. It applies the principles on acquisition accounting in IPSAS 40 and other IPSAS for identifying, recognizing, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint Operation D. This is because Municipality E acquired an interest in a joint operation in which the activity constitutes an operation (see paragraph 24A).

IE65. However, Municipality E does not apply the principles on acquisition accounting in IPSAS 40 and other IPSAS that conflict with the guidance in this Standard. Consequently, in accordance with paragraph 23, Municipality E recognizes, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the binding arrangement. Municipality E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.

IE66. IPSAS 40 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, a reacquired right recognized as an intangible asset is measured on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Such measurement does not conflict with this Standard and thus those requirements apply.

IE67. Consequently, Municipality E determines the fair value, or other measure specified in IPSAS 40, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value

or other measure specified by IPSAS 40 of Municipality E's shares in the identifiable assets and liabilities related to Joint Operation D:

	***Fair value or other measure specified by IPSAS 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D* (CU)**
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70
Retirement benefit obligations	(12)
Accounts payable	(48)
Contingent liabilities	(52)
Deferred tax liability (see the international or national standard dealing with income taxes)	(24)
Net assets	**228**

IE68. In accordance with IPSAS 40, the excess of the consideration transferred over the amount allocated to Municipality E's shares in the net identifiable assets is recognized as goodwill:

Consideration transferred	CU300
Municipality E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	CU228
Goodwill	**CU72**

IE69. Acquisition-related costs of CU50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognized as expenses in surplus or deficit in the period that the costs are incurred and the services are received (see paragraph 111 of IPSAS 40).

Example 9—Contributing the right to use know-how to a joint operation in which the activity constitutes an operation

IE70. Entities A and B are two entities whose activities are the construction of high performance batteries for diverse applications.

IE71. In order to develop batteries for electric vehicles they set up a binding arrangement (Joint Operation Z) to work together. Entities A and B share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes an operation, as defined in IPSAS 40.

IE72. After several years, the joint operators (Entities A and B) concluded that it is feasible to develop a battery for electric vehicles using Material M. However, processing Material M requires specialist know-how and thus far, Material M has only been used in electricity generation.

IE73. In order to get access to existing know-how in processing Material M, Entities A and B arrange for Entity C to join as another joint operator by acquiring an interest in Joint Operation Z from Entities A and B and becoming a party to the binding arrangements.

IE74. Entity C's activity so far has been solely the generation of electricity. It has long-standing and extensive knowledge in processing Material M.

IE75. In exchange for its share in Joint Operation Z, Entity C pays cash to Entities A and B and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Entity C seconds some of its employees who are experienced in processing Material M to Joint Operation Z. However, Entity C does not transfer control of the know-how to Entities A and B or Joint Operation Z because it retains all the rights to it. In particular, Entity C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Entity A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE76. The fair value of Entity C's know-how on the date of the acquisition of the interest in the joint operation is CU1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Entity C was CU300.

Analysis

IE77. Entity C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40.

IE78. In accounting for the acquisition of its interest in the joint operation, Entity C applies all the principles on acquisition accounting in IPSAS 40 and other IPSAS that do not conflict with the guidance in this Standard (see paragraph 24A). Entity C therefore recognizes in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE79. Entity C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Entity C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to Entities A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE80. Consequently, Entity C continues to recognize the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Entity C will continue to recognize the know-how based on its carrying amount of CU300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Entity C has granted the right to use the know-how to itself. Consequently, Entity C does not remeasure the know-how, and it does not recognize a gain or loss on the grant of the right to use it.

COMPARISON WITH IFRS 11

IPSAS 37, *Joint Arrangements,* is drawn primarily from IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 11 are therefore replaced by references to the IPSAS dealing with financial instruments.

The main differences between IPSAS 37 and IFRS 11 are as follows:

- IPSAS 37 uses different terminology, in certain instances, from IFRS 11. The most significant examples are the use of the terms “controlling entity”, “surplus or deficit” and “accumulated surplus or deficit” in IPSAS 37. The equivalent terms in IFRS 11 are, “parent,” “profit or loss” and “retained earnings.”
- IPSAS 35 defines the term “binding arrangement”. This term is broader than the term “contractual arrangement”, which is used in IFRS 11.
- IPSAS 37 contains additional illustrative examples that reflect the public sector context.

IPSAS 38, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 12, *Disclosures of Interests in Other Entities* published by the International Accounting Standards Board (IASB®). Extracts from IFRS 12 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 38, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 38, *Disclosure of Interests in Other Entities* was issued in January 2015.

Since then, IPSAS 38 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- IPSAS 41, *Financial Instruments* (issued August 2018)
- IPSAS 39, *Employee Benefits* (issued July 2016)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in IPSAS 38

Paragraph Affected	How Affected	Affected By
3A	New	IPSAS 44 May 2022
4	Amended	IPSAS 39 July 2016 IPSAS 41 August 2018
5	Deleted	*The Applicability of IPSAS* April 2016
6	Deleted	*The Applicability of IPSAS* April 2016
57A	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
57B	New	IPSAS 46 May 2023
57C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
57D	New	IPSAS 46 May 2023
57E	New	IPSAS 46 May 2023
57F	New	IPSAS 46 May 2023
61A	New	*The Applicability of IPSAS* April 2016

Paragraph Affected	How Affected	Affected By
61B	New	IPSAS 39 July 2016
61C	Amended	*COVID-19: Deferral of Effective Dates* November 2020
61D	New	IPSAS 44 May 2022
61E	New	IPSAS 46 May 2023
61F	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
62	Amended	IPSAS 33 November 2025
AG12	Amended	IPSAS 44 May 2022
AG16	Amended	IPSAS 44 May 2022
AG16A	New	IPSAS 44 May 2022

IPSAS 38, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

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International Public Sector Accounting Standard 38, *Disclosure of Interests in Other Entities*, is set out in paragraphs 1–62. All the paragraphs have equal authority. IPSAS 38 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

   (a) The nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and

   (b) The effects of those interests on its financial position, financial performance and cash flows.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated.**

3. **This Standard shall be applied by an entity that has an interest in any of the following:**

   (a) **Controlled entities;**

   (b) **Joint arrangements (i.e., joint operations or joint ventures);**

   (c) **Associates; or**

   (d) **Structured entities that are not consolidated.**

3A. Except as described in paragraph AG16A, the requirements in this Standard apply to an entity's interests listed in paragraph 3 that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations.*

4. **This Standard does not apply to:**

   (a) **Post-employment benefit plans or other long-term employee benefit plans to which IPSAS 39, *Employee Benefits* applies.**

   (b) **An entity's separate financial statements to which IPSAS 34, S*eparate Financial Statements*, applies. However:**

      (i) **If an entity has interests in structured entities that are not consolidated and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 40–48 when preparing those separate financial statements.**

      (ii) **An investment entity that prepares financial statements in which all of its controlled entities are measured at fair value through surplus or deficit in accordance with paragraph 56 of IPSAS 35 shall present the disclosures relating to investment entities required by this Standard.**

   (c) **An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.**

   (d) **An interest in another entity that is accounted for in accordance with IPSAS 41, *Financial Instruments*. However, an entity shall apply this Standard:**

(i) **When that interest is an interest in an associate or a joint venture that, in accordance with IPSAS 36, *Investments in Associates and Joint Ventures,* is measured at fair value through surplus or deficit; or**

(ii) **When that interest is an interest in a structured entity that is not consolidated.**

5. [Deleted]

6. [Deleted]

Definitions

7. **The following terms are used in this Standard with the meanings specified:**

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

An interest in another entity, for the purpose of this Standard, refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.

Paragraphs AG7–AG9 provide further information about interests in other entities.

Paragraphs AG57–AG59 of IPSAS 35, *Consolidated Financial Statements* explain variability of benefits.

Revenue from a structured entity, for the purpose of this Standard, includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

A structured entity is:

(a) **In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or**

(b) **In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.**

Paragraphs AG20–AG23 provide further information about structured entities.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in either IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements,* IPSAS 36, *Investments in Associates and Joint Ventures* or IPSAS 37, *Joint*

***Arrangements*: associate, consolidated financial statements, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint arrangement, joint control, joint operation, joint venture, non-controlling interest, relevant activities, separate financial statements, separate vehicle and significant influence.**

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between the parties.

Disclosing Information about Interests in Other Entities

9. **To meet the objective in paragraph 1, an entity shall disclose:**

   (a) **The significant judgments and assumptions it has made in determining:**

      (i) **The nature of its interest in another entity or arrangement;**

      (ii) **The type of joint arrangement in which it has an interest (paragraphs 12–14); and**

      (iii) **That it meets the definition of an investment entity, if applicable (paragraph 15); and**

   (b) **Information about its interests in:**

      (i) **Controlled entities (paragraphs 17–26);**

      (ii) **Joint arrangements and associates (paragraphs 35–39);**

      (iii) **Structured entities that are not consolidated (paragraphs 40–48);**

      (iv) **Non-quantifiable ownership interests (paragraphs 49–50); and**

      (v) **Controlling interests acquired with the intention of disposal (paragraphs 51–57).**

10. **If the disclosures required by this Standard, together with disclosures required by other IPSAS, do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.**

11. **An entity shall consider the level of detail necessary to satisfy the disclosure objective in paragraph 1 and how much emphasis to place on each of the requirements in this Standard. It shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs AG2–AG6).**

Significant Judgments and Assumptions

12. **An entity shall disclose the methodology used to determine:**

   (a) **That it has control of another entity as described in paragraphs 18 and 20 of IPSAS 35;**

   (b) **That it has joint control of an arrangement or significant influence over another entity; and**

   (c) **The type of joint arrangement (i.e., joint operation or joint venture) when the arrangement has been structured through a separate vehicle.**

13. **The disclosures required by paragraph 12 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at**

the same time. Without the information incorporated by cross-reference, the financial statements are incomplete. The use of such cross-referencing may be subject to jurisdictional restrictions.

14. **To comply with paragraph 12, an entity shall disclose, for example, the factors considered in determining that:**

    (a) **It controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;**

    (b) **It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities);**

    (c) **It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities);**

    (d) **It is an agent or a principal (see paragraphs AG60–AG74 of IPSAS 35);**

    (e) **It does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity; and**

    (f) **It has significant influence even though it holds less than 20 per cent of the voting rights of another entity.**

Investment Entity Status

15. **When a controlling entity determines that it is an investment entity in accordance with IPSAS 35, the investment entity shall disclose information about significant judgments and assumptions it has made in determining that it is an investment entity. An investment entity is not required to disclose this information if it has all of the characteristics in paragraph 61 of IPSAS 35.**

16. **When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:**

    (a) **The total fair value, as of the date of change of status, of the controlled entities that cease to be consolidated;**

    (b) **The total gain or loss, if any, calculated in accordance with paragraph 64 of IPSAS 35; and**

    (c) **The line item(s) in surplus or deficit in which the gain or loss is recognized (if not presented separately).**

Interests in Controlled Entities

17. **An entity shall disclose information that enables users of its consolidated financial statements:**

    (a) **To understand:**

        (i) **The composition of the economic entity; and**

        (ii) **The interest that non-controlling interests have in the economic entity's activities and cash flows (paragraph 19); and**

    (b) **To evaluate:**

        (i) **The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the economic entity (paragraph 20);**

(ii) **The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 21–24);**

(iii) **The consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control (paragraph 25); and**

(iv) **The consequences of losing control of a controlled entity during the reporting period (paragraph 26).**

18. **When the financial statements of a controlled entity used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraph 46 of IPSAS 35) an entity shall disclose:**

(a) **The date of the end of the reporting period of the financial statements of that controlled entity; and**

(b) **The reason for using a different date or period.**

The Interest that Non-controlling Interests have in the Economic Entity's Activities and Cash Flows

19. **An entity shall disclose for each of its controlled entities that have non-controlling interests that are material to the reporting entity:**

(a) **The name of the controlled entity;**

(b) **The domicile and legal form of the controlled entity and the jurisdiction in which it operates;**

(c) **The proportion of ownership interests held by non-controlling interests;**

(d) **The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;**

(e) **The surplus or deficit allocated to non-controlling interests of the controlled entity during the reporting period;**

(f) **Accumulated non-controlling interests of the controlled entity at the end of the reporting period; and**

(g) **Summarized financial information about the controlled entity (see paragraph AG10).**

The Nature and Extent of Significant Restrictions

20. **An entity shall disclose:**

(a) **Significant restrictions in binding arrangements (e.g., statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the economic entity, such as:**

(i) **Those that restrict the ability of a controlling entity or its controlled entities to transfer cash or other assets to (or from) other entities within the economic entity.**

(ii) **Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the economic entity.**

(b) **The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the economic entity (such as when a controlling entity is obliged to settle liabilities of a controlled entity**

before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a controlled entity).

(c) **The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.**

Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities

21. **An entity shall disclose the terms of any binding arrangements that could require the controlling entity or its controlled entities to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).**

22. **If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a consolidated structured entity (e.g., purchasing assets of, or instruments issued by, the structured entity), the entity shall disclose:**

(a) **The type and amount of support provided, including situations in which the controlling entity or its controlled entities assisted the structured entity in obtaining financial support; and**

(b) **The reasons for providing the support.**

23. **If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.**

24. **An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.**

Consequences of Changes in a Controlling Entity's Ownership Interest in a Controlled Entity that do not Result in a Loss of Control

25. **An entity shall present a schedule that shows the effects on the net assets/equity attributable to owners of the controlling entity of any changes in its ownership interest in a controlled entity that do not result in a loss of control.**

Consequences of Losing Control of a Controlled Entity During the Reporting Period

26. **An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 52 of IPSAS 35 and:**

(a) **The portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost; and**

(b) **The line item(s) in surplus or deficit in which the gain or loss is recognized (if not presented separately).**

Interests in Unconsolidated Controlled Entities (Investment Entities)

27. **An investment entity that, in accordance with IPSAS 35 is required to apply the exception to consolidation and instead account for its investment in a controlled entity at fair value through surplus or deficit shall disclose that fact.**

28. **For each unconsolidated controlled entity, an investment entity shall disclose:**

(a) **The controlled entity's name;**

(b) **The domicile and legal form of the controlled entity and the jurisdiction in which it operates; and**

(c) **The proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.**

29. **If an investment entity is the controlling entity of another investment entity, the controlling entity shall also provide the disclosures in paragraph 28(a)–(c) for investments that are controlled by its controlled investment entity. The disclosure may be provided by including, in the financial statements of the controlling entity, the financial statements of the controlled entity (or controlled entities) that contain the above information.**

30. **An investment entity shall disclose:**

(a) **The nature and extent of any significant restrictions arising from binding arrangements (e.g., resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated controlled entity to transfer funds to the investment entity in the form of cash dividends, or similar distributions, or to repay loans or advances made to the unconsolidated controlled entity by the investment entity; and**

(b) **Any current commitments or intentions to provide financial or other support to an unconsolidated controlled entity, including commitments or intentions to assist the controlled entity in obtaining financial support.**

31. **If, during the reporting period, an investment entity or any of its controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated controlled entity (e.g., purchasing assets of, or instruments issued by, the controlled entity or assisting the controlled entity in obtaining financial support), the entity shall disclose:**

(a) **The type and amount of support provided to each unconsolidated controlled entity; and**

(b) **The reasons for providing the support.**

32. **An investment entity shall disclose the terms of any binding arrangements that could require the entity or its unconsolidated controlled entities to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).**

33. **If during the reporting period an investment entity or any of its unconsolidated controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.**

34. **A controlling entity that controls an investment entity and is not itself an investment entity, shall disclose in its consolidated financial statements, the information required by paragraphs 27 to 33 in respect of such unconsolidated controlled entities.**

Interests in Joint Arrangements and Associates

35. **An entity shall disclose information that enables users of its financial statements to evaluate:**

(a) **The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 36 and 38); and**

(b) **The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 39).**

Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates

36. **An entity shall disclose:**

(a) **For each joint arrangement and associate that is material to the reporting entity:**

(i) **The name of the joint arrangement or associate;**

(ii) **The nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities);**

(iii) **The domicile and legal form of the joint arrangement or associate and the jurisdiction in which it operates; and**

(iv) **The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).**

(b) **For each joint venture and associate that is material to the reporting entity:**

(i) **Whether the investment in the joint venture or associate is measured using the equity method or at fair value;**

(ii) **Summarized financial information about the joint venture or associate as specified in paragraphs AG12 and AG13; and**

(iii) **If the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.**

(c) **Financial information as specified in paragraph AG16 about the entity's investments in joint ventures and associates that are not individually material:**

(i) **In aggregate for all individually immaterial joint ventures; and**

(ii) **In aggregate for all individually immaterial associates. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.**

37. An investment entity need not provide the disclosures required by paragraphs 36(b)–36(c).

38. **An entity shall also disclose:**

(a) **The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or binding arrangements between investors with joint control of, or significant influence over, a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends or similar distributions, or to repay loans or advances made by the entity.**

(b) **When the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:**

(i) **The date of the end of the reporting period of the financial statements of that joint venture or associate; and**

(ii) **The reason for using a different date or period.**

(c) **The unrecognized share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognizing its share of losses of the joint venture or associate when applying the equity method.**

Risks Associated with an Entity's Interests in Joint Ventures and Associates

39. **An entity shall disclose:**

(a) **Commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs AG17–AG19; and**

(b) **In accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.**

Interests in Structured Entities that are not Consolidated

40. **An entity shall disclose information that enables users of its financial statements:**

(a) **To understand the nature and extent of its interests in structured entities that are not consolidated (paragraphs 43–45); and**

(b) **To evaluate the nature of, and changes in, the risks associated with its interests in structured entities that are not consolidated (paragraphs 46–48).**

41. The information required by paragraph 40(b) includes information about an entity's exposure to risk from involvement that it had with structured entities that are not consolidated in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any involvement by way of binding arrangement with the structured entity at the reporting date.

42. An investment entity need not provide the disclosures required by paragraph 40 for a structured entity that it controls but which is not consolidated, and for which it presents the disclosures required by paragraphs 27–33.

Nature of Interests

43. **An entity shall disclose qualitative and quantitative information about its interests in structured entities that are not consolidated, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.**

44. **If an entity has sponsored a structured entity that is not consolidated for which it does not provide information required by paragraph 46 (e.g., because it does not have an interest in the entity at the reporting date), the entity shall disclose:**

(a) **How it has determined which structured entities it has sponsored;**

(b) **Revenue from those structured entities during the reporting period, including a description of the types of revenue presented; and**

(c) **The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.**

45. **An entity shall present the information in paragraph 44(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs AG2–AG6).**

Nature of Risks

46. **An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:**

(a) **The carrying amounts of the assets and liabilities recognized in its financial statements relating to its interests in structured entities that are not consolidated;**

(b) **The line items in the statement of financial position in which those assets and liabilities are recognized;**

(c) **The amount that best represents the entity's maximum exposure to loss from its interests in structured entities that are not consolidated, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in structured entities that are not consolidated it shall disclose that fact and the reasons; and**

(d) **A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in structured entities that are not consolidated and the entity's maximum exposure to loss from those entities.**

47. **If during the reporting period an entity has, without having an obligation under a binding arrangement to do so, provided financial or other support to a structured entity that is not consolidated in which it previously had or currently has an interest (for example, purchasing assets of, or instruments issued by, the structured entity), the entity shall disclose:**

(a) **The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and**

(b) **The reasons for providing the support.**

48. **An entity shall disclose any current intentions to provide financial or other support to a structured entity that is not consolidated, including intentions to assist the structured entity in obtaining financial support. Such current intentions include intentions to provide support as a result of obligations under binding arrangements and intentions to provide support where the entity has no obligation under a binding arrangement.**

Non-quantifiable Ownership Interests

49. **An entity shall disclose information that enables users of its financial statements to understand the nature and extent of any non-quantifiable ownership interests in other entities.**

50. **To the extent that this information has not already been provided in accordance with this Standard, an entity shall disclose, in respect of each non-quantifiable ownership interest that is material to the reporting entity:**

(a) **The name of the entity in which it has an ownership interest; and**

(b) **The nature of its ownership interest in the entity.**

Controlling Interests Acquired with the Intention of Disposal

51. **An entity, other than an investment entity, shall disclose information regarding its interest in a controlled entity when, at the point at which control arose, the entity had the intention of disposing of that interest and, at the reporting date, it has an active intention to dispose of that interest.**

52. There are a number of situations in which a public sector entity may obtain control of another entity, but where the entity has an active intention to dispose of all or part of its controlling interest in the near future.

53. Because of a government's broad responsibility for the economic well-being of a jurisdiction it may intervene to prevent the consequences of failure of an entity, such as a financial institution. Such interventions may lead to a government obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the government may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. The obtaining of control as a result of interventions to prevent failure is most likely to occur in the context of governments, but could also occur in the case of individual public sector entities.

54. A public sector entity may also acquire a controlling interest in another entity, with the intention of disposing of all or part of that interest, in implementing a government's policy objectives. For example, a government may direct an entity to acquire certain interests in other entities for the purpose of redistribution.

55. **An entity shall disclose the following information in the notes in respect of each controlled entity referred to in paragraph 51:**

    (a) **The name of the controlled entity and a description of its key activities;**

    (b) **The rationale for the acquisition of the controlling interest and the factors considered in determining that control exists;**

    (c) **The impact on the consolidated financial statements of consolidating the controlled entity including the effect on assets, liabilities, revenue, expenses and net assets/equity; and**

    (d) **The current status of the approach to disposal, including the expected method and timing of disposal.**

56. **The disclosures required by paragraph 55 shall be provided at each reporting date until the entity disposes of the controlling interest or ceases to have the intention to dispose of that interest. In the period in which the entity disposes of the controlling interest or ceases to have the intention to dispose of the controlling interest it shall disclose:**

    (a) **The fact that there has been a disposal or change of intention; and**

    (b) **The effect of the disposal or change of intention on the consolidated financial statements.**

57. **Where other disclosures required by this Standard or other IPSAS would provide information relevant to paragraphs 55 or 56 a cross-reference to those other disclosures shall be provided.**

Current Value Measurement

57A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For interests in other entities that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

57B. To meet the objectives in paragraph 57A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 57A, an entity shall disclose additional information necessary to meet those objectives.

57C. To meet the objectives in paragraph 57A, an entity shall disclose, at a minimum, the following information for each class of interests in other entities (see paragraph 57D for information on determining appropriate classes of interests in other entities) measured at fair value (including measurements based on fair value within the scope of IPSAS 46, *Measurement*) in the statement of financial position after initial recognition:

(a) The fair value measurement at the end of the reporting period;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

(c) For fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity;

(d) For fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those interests in other entities held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

57D. An entity shall determine the appropriate disaggregation of interests in other entities on the basis of the following:

(a) The nature, characteristics and risks of the interests in other entities; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized.

The disaggregation may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of interests in other entities for which disclosures about fair value measurements should be provided requires judgment. Interests in other entities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for interests in other entities, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

57E. For each class of interests in other entities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 57C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, required by paragraph 57C(c). For such interests in other entities, an entity does not need to provide the other disclosures required by this Standard.

57F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Transitional Provisions

58. An entity is encouraged to provide information required by this Standard earlier than annual periods beginning on or after January 1, 2017. Providing some of the disclosures required by this Standard does not compel the entity to comply with all the requirements of this Standard or to apply IPSAS 34, IPSAS 35, IPSAS 36, and IPSAS 37 early.

59. The disclosure requirements of this Standard need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which this Standard is applied.

60. The disclosure requirements of paragraphs 40–56 and the corresponding guidance in paragraphs AG20–AG25 of this Standard need not be applied for any period presented that begins before the first annual period for which this Standard is applied.

Effective Date

61. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged.**

61A. **Paragraphs 5 and 6 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

61B. **Paragraph 4 was amended by IPSAS 39, *Employee Benefits*, issued in July 2016. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2018, it shall disclose that fact and apply IPSAS 39 at the same time.**

61C. **Paragraph 4 was amended by IPSAS 41, in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023, it shall disclose that fact and apply IPSAS 41 at the same time.**

61D. **Paragraphs AG12 and AG16 were amended and paragraphs 3A and AG16A were added by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

61E. **Paragraphs 57A–57F were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

61F. **Paragraphs 57A, and 57C(a)-57C(g) are amended by Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

62. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards,* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 38.

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying this Standard.

Aggregation (paragraph 11)

AG2. An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

AG3. An entity may aggregate the disclosures required by this Standard for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph AG4, and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.

AG4. An entity shall present information separately for interests in:

(a) Controlled entities;

(b) Joint ventures;

(c) Joint operations;

(d) Associates; and

(e) Structured entities that are not consolidated.

AG5. In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and benefit characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

AG6. Examples of aggregation levels within the classes of entities set out in paragraph AG4 that might be appropriate are:

(a) Nature of activities (e.g., a research and development entity, a revolving credit card securitization entity).

(b) Industry classification.

(c) Geography (e.g., country or region).

Interests in Other Entities

AG7. An interest in another entity refers to involvement by way of binding arrangements or otherwise that exposes the reporting entity to variability of benefits from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this Standard. That

assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.

AG8. A reporting entity is typically exposed to variability of benefits from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability. For example, assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of benefits from the performance of the structured entity because the credit default swap absorbs variability of benefits, in the form of returns, of the structured entity.

AG9. Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of benefits for the other entity but do not typically expose the reporting entity to variability of benefits from the performance of the other entity. For example, assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to entity Z's credit risk (entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive higher benefits that reflect both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of benefits from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of benefits of the structured entity.

Summarized Financial Information for Controlled Entities, Joint Ventures and Associates (paragraphs 19 and 36)

AG10. For each controlled entity that has non-controlling interests that are material to the reporting entity, an entity shall disclose:

(a) Dividends or similar distributions paid to non-controlling interests; and

(b) Summarized financial information about the assets, liabilities, surplus or deficit and cash flows of the controlled entity that enables users to understand the interest that non-controlling interests have in the economic entity's activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue and surplus or deficit.

AG11. The summarized financial information required by paragraph AG10(b) shall be the amounts before inter-entity eliminations.

AG12. For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

(a) Dividends or similar distributions received from the joint venture or associate; and

(b) Summarized financial information for the joint venture or associate (see paragraphs AG14 and AG15) including, but not necessarily limited to:

(i) Current assets;

(ii) Non-current assets;

(iii) Current liabilities;

(iv) Non-current liabilities;

(v) Revenue;

(vi) Tax expense;

(vii) Post-tax surplus or deficit from discontinued operations; and

(viii) Surplus or deficit.

AG13. In addition to the summarized financial information required by paragraph AG12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:

(a) Cash and cash equivalents included in paragraph AG12(b)(i);

(b) Current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iii);

(c) Non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iv);

(d) Depreciation and amortization;

(e) Interest revenue;

(f) Interest expense; and

(g) Income tax expense.

AG14. The summarized financial information presented in accordance with paragraphs AG12 and AG13 shall be the amounts included in the IPSAS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

(a) The amounts included in the IPSAS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

(b) The entity shall provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture or associate.

AG15. An entity may present the summarized financial information required by paragraphs AG12 and AG13 on the basis of the joint venture's or associate's financial statements if:

(a) The entity measures its interest in the joint venture or associate at fair value in accordance with IPSAS 36; and

(b) The joint venture or associate does not prepare IPSAS financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity shall disclose the basis on which the summarized financial information has been prepared.

AG16. An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

(a) Revenue.

(b) Tax expense.

(c) Post-tax surplus or deficit from discontinued operations.

(d) Surplus or deficit.

(e) An entity provides the disclosures separately for joint ventures and associates.

AG16A. When an entity's interest in a controlled entity, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IPSAS 44, *Non-current Assets Classified as Held for Sale and Discontinued Operations*, the entity is not required to disclose summarized financial information for that controlled entity, joint venture or associate in accordance with paragraphs AG10-AG16.

Commitments for Joint Ventures (paragraph 39(a))

AG17. An entity shall disclose total commitments it has made but not recognized at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.

AG18. Unrecognized commitments that may give rise to a future outflow of cash or other resources include:

(a) Unrecognized commitments to contribute funding or resources as a result of, for example:

(i) The constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).

(ii) Capital-intensive projects undertaken by a joint venture.

(iii) Unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.

(iv) Unrecognized commitments to provide loans or other financial support to a joint venture.

(v) Unrecognized commitments to contribute resources to a joint venture, such as assets or services.

(vi) Other non-cancellable unrecognized commitments relating to a joint venture.

(b) Unrecognized commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.

AG19. The requirements and examples in paragraphs AG17 and AG18 illustrate some of the types of disclosure required by paragraph 27 of IPSAS 20, *Related Party Disclosures.*

Interests in Structured Entities that are not Consolidated (paragraphs 40–48)

Structured Entities

AG20. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Although binding arrangements frequently occur between public sector entities, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Depending on the context a structured entity could be (i) an entity for which most of the activities are predetermined, with the relevant activities limited in scope but directed through binding

arrangements or (ii) an entity for which any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

AG21. A structured entity often has some or all of the following features or attributes:

(a) Restricted activities.

(b) A narrow and well-defined objective, such as to carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.

(c) Insufficient net assets/equity to permit the structured entity to finance its activities without subordinated financial support.

(d) Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

AG22. Examples of entities that are regarded as structured entities include, but are not limited to:

(a) A partnership between a government and a private sector entity that is not a joint venture, being a partnership established and directed by binding arrangements.

(b) Securitization vehicles.

(c) Asset-backed financings.

(d) Some investment funds.

AG23. The mere fact that a government provides funding to another entity does not make that entity a structured entity. Nor is an entity that is controlled by voting rights a structured entity simply because, for example, it receives funding from third parties following a restructuring.

Nature of Risks from Interests in Structured Entities that are not Consolidated (paragraphs 46–48)

AG24. In addition to the information required by paragraphs 46–48, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 40(b).

AG25. Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in a structured entity that is not consolidated are:

(a) The terms of an arrangement that could require the entity to provide financial support to a structured entity that is not consolidated (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including:

(i) A description of events or circumstances that could expose the reporting entity to a loss.

(ii) Whether there are any terms that would limit the obligation.

(iii) Whether there are any other parties that provide financial support and, if so, how the reporting entity’s obligation ranks with those of other parties.

(b) Losses incurred by the entity during the reporting period relating to its interests in structured entities that are not consolidated.

(c) The types of revenue the entity received during the reporting period from its interests in structured entities that are not consolidated.

(d) Whether the entity is required to absorb losses of a structured entity that is not consolidated before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the structured entity that is not consolidated.

(e) Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in structured entities that are not consolidated.

(f) Any difficulties a structured entity that is not consolidated has experienced in financing its activities during the reporting period.

(g) In relation to the funding of a structured entity that is not consolidated, the forms of funding (e.g., commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of a structured entity if the structured entity has longer-term assets funded by shorter-term funding.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 38.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 38. As this Standard is based on IFRS 12, *Disclosure of Interests in Other* Entities (issued in 2011, including amendments up to December 31, 2014), issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 38 departs from the main requirements of IFRS 12.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 52*, Disclosure of Interests in Other Entities*, was based on IFRS 12, *Disclosure of Interests in Other Entities*, having regard to the relevant public sector modifications to the disclosure requirements in IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates,* and IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSAS, including IPSAS 38. These new IPSAS supersede IPSAS 6, IPSAS 7, and IPSAS 8.

Significant Judgments and Assumptions (paragraphs 12 to 14)

BC3. The IPSASB noted that paragraph 7 of IFRS 12, requires that an entity disclose information about significant judgments and assumptions it has made in determining the nature of its interest in another entity (for example, control, joint control or significant influence). Although the IPSASB agreed that users need information about how an entity has made these judgments, it noted that a public sector entity could be required to make many judgments and assumptions in relation to particular entities, and that the disclosure of such judgments and assumptions and changes in such judgments from period to period could result in unnecessary detail. The IPSASB also noted that, in the public sector, decisions about the reporting entity may be made having regard to frameworks developed in conjunction with other parties such as legislative bodies or oversight committees. The assessments made in respect of the classification of certain types of entities as controlled entities, jointly controlled entities, or entities subject to significant influence may be recorded in public documents other than the financial statements. The IPSASB therefore agreed to require that an entity disclose the methodology used to decide the existence or absence of control, joint control of an arrangement or significant influence, either in the financial statements themselves or by way of reference to another publicly available document.

Definition of Structured Entity (paragraphs 7 and AG20 to AG23)

BC4. The IPSASB noted that the definition of "structured entity" in IFRS 12 focusses on voting or similar rights, which tend to occur less frequently or have less significance in the public sector than in the private sector. However, the IPSASB agreed that it was still appropriate to refer to voting or similar rights in the definition of a structured entity because voting or similar rights may be the predominant way in which a public sector entity establishes control over another entity. The IPSASB decided to modify the definition of a structured entity to highlight that they occur when the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity and encompass the broader range of circumstances that occur in the public sector.

BC5. The IPSASB identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many public sector entities. Accordingly, the IPSASB took the view that the reference to "similar rights" in the definition of structured entity should encompass administrative arrangements and statutory provisions. Thus, the ED proposed that entities for which administrative

arrangements or statutory provisions are dominant factors in determining control of the entity would not be structured entities. The IPSASB considers that the disclosures required of structured entities are appropriate, but that in order to be useful they need to be focused on a limited class of entities (consistent with the intention of the IASB's requirements in relation to entities applying IFRS 12).

BC6. Some respondents to ED 52 were concerned that the definition of a structured entity could be read as suggesting that an entity was operating in an unauthorized way or in contravention of laws. The IPSASB noted that this was not its intention and reviewed the definition of structured entities to see if any clarification was required. The IPSASB noted that the definition does not suggest that a structured entity would not be required to comply with relevant statutes or administrative arrangements. Rather the definition allows for the possibility that a small group of entities may have been established under different arrangements from the arrangements commonly used to establish similar entities.

Investment Entities (paragraphs 27 to 34)

BC7. The IPSASB considered the investment entity disclosures required by IFRS 12 and concluded that those disclosures were particularly appropriate in the public sector context. The IPSASB noted that, as a consequence of the requirements in IPSAS 35 most public sector entities with investment entities would be required to make these disclosures.

BC8. The IPSASB considered whether a non-investment controlling entity accounting for investment entities at fair value should be required to make any additional disclosures. The IPSASB considered that the disclosures required in relation to investment entities were appropriate and should also be provided in the consolidated financial statements of a controlling entity with investment entities.

Non-quantifiable Ownership Interests (paragraphs 49 and 50)

BC9. The scope of IPSAS 36, *Investments in Associates and Joint Ventures*, is limited to "quantifiable ownership interests". The IPSASB noted that respondents supported this proposal, but considered that disclosure of information about an entity's non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed to require, in this Standard, disclosure of information about non-quantifiable ownership interests.

Controlling Interests Acquired with the Intention of Disposal (paragraphs 50 to 57)

BC10. Some respondents to ED 52 proposed that the IPSASB require disclosures about temporary control (either by developing a standard based on IFRS 5*, Non-current Assets Held for Sale and Discontinued Operations*, or by adding disclosures to this Standard). The IPSASB considered, and rejected, the idea of requiring disclosure of all controlled investments held for sale on the grounds that it was too broad. Nevertheless, the IPSASB agreed that some disclosure about controlling interests intended to be held for a limited time could be of interest to users. For example, the IPSASB considered that users would be interested in information about interventions to prevent the consequences of the failure of an entity, or acquisitions of entities which will subsequently be redistributed to achieve policy objectives. The IPSASB agreed that its objective was to require disclosure of information about controlling interests where there was an active intention to dispose of the interest, both at the time of the acquisition and at the reporting date.

BC11. In considering the information to be disclosed the IPSASB agreed that the requirements should be general in nature. The IPSASB acknowledged that the circumstances in which a controlling interest is acquired or disposed of could vary widely (for example, a controlling interest might be acquired by virtue of providing guarantees). In addition, entities might wish to provide information about the transactions or events giving rise to such controlling interests, and the IPSASB did not wish to be unnecessarily prescriptive about the type of information that should be provided. The IPSASB therefore agreed to require disclosures to assist users

to understand the impact of consolidating such controlling interests on the consolidated financial statements by reference to the effect on the main aspects of the financial statements.

BC12. The IPSASB acknowledged that the expected method of disposal might be under consideration at the reporting date and that plans might change from one period to another. It also acknowledged that disposal might occur in stages. The IPSASB therefore agreed to require disclosure of the "current status of the approach to disposal".

BC13. The IPSASB considered whether to limit the disclosures to situations where control was expected to exist for a specified time period, such as one or two years. The IPSASB decided not to specify a time period. It considered that limiting the disclosures to controlling interests and situations where there was still an active intention to dispose of the interest would lead to informative disclosures without overwhelming readers with too much detail.

Revision of IPSAS 38 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC14. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about *The Applicability of IPSAS* to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 38 as a result of Part 4 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC15. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB proposed to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS.

BC16. In August 2024, the IPSASB published ED 90, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal:

(a) A respondent suggested explaining when an asset is considered to be measured on a recurring or non-recurring basis after initial recognition; and

(b) A few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC17. The IPSASB discussed that:

(a) These terms were removed because each IPSAS specifies whether an asset is measured on a recurring or non-recurring basis after initial recognition under a current value measurement basis. Therefore, explaining this within the current value measurement disclosures may lead to confusion. Instead, the IPSASB decided to enhance paragraph A.2. in Section A: Measurement, Implementation Guidance in IPSAS 46 to explain that the level of disclosures required is dependent on whether the asset is measured on a recurring or non-recurring basis at current value measurement basis after initial recognition.

(b) The IPSASB agreed that the removal of ‘recurring’ in paragraphs that do not stipulate ‘in the statement of financial position after initial recognition’ could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost.

BC18. In responding to constituents’ comments, the IPSASB updated relevant current value measurement disclosure paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to measuring assets using current value measurement basis in the statement of financial position after initial recognition.

COMPARISON WITH IFRS 12

IPSAS 38, *Disclosure of Interests in Other Entities* is drawn primarily from IFRS 12, *Disclosure of Interests in Other Entities* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 12 are therefore replaced by references to the IPSAS dealing with financial instruments.

The main differences between IPSAS 38 and IFRS 12 are as follows:

- IPSAS 38 uses different terminology, in certain instances, from IFRS 12. The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity”, “revenue” in IPSAS 38. The equivalent terms in IFRS 12 are “equity,” “group,” “parent,” “subsidiary” and “income.”
- The definition of a structured entity in IPSAS 38 acknowledges the differing ways in which control may be obtained in the public sector.
- IPSAS 38 requires that a controlling entity that controls an investment entity, and is not itself an investment entity, disclose information in respect of unconsolidated investment entities. IFRS 12 does not require such disclosures by a controlling entity that controls an investment entity, and is not itself an investment entity because IFRS 10 requires that such a controlling entity consolidate controlled investment entities.
- IPSAS 38 requires the disclosure of information about non-quantifiable ownership interests. IFRS 12 does not specify such disclosures.
- IPSAS 38 requires the disclosure of information about interests in entities that were acquired with the intention of disposal and which are still held for disposal. IFRS 12 does not specify such disclosures. However, IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* requires disclosures about non-current assets held for sale.

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IPSAS 39, *EMPLOYEE BENEFITS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 19, *Employee Benefits* published by the International Accounting Standards Board (IASB®), and IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* published by the IFRS® Interpretations Committee. Extracts from IAS 19 and IFRIC 14 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 39, *EMPLOYEE BENEFITS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 39, *Employee Benefits* was issued in July 2016.

Since then, IPSAS 39 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards: Specific IFRIC Interpretations* (issued January 2025)
- IPSAS 49, *Retirement Benefit Plans* (issued November 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- *Improvements to IPSAS 2021* (issued January 2022)
- *Improvements to IPSAS 2018* (issued October 2018)

Table of Amended Paragraphs in IPSAS 39

Paragraph Affected	How Affected	Affected By
3	Amended	*Improvements to IPSAS* January 2022 IPSAS 49 November 2023
4	Amended	*Improvements to IPSAS* January 2022
8	Amended	IPSAS 46 May 2023
11	Amended	IPSAS 45 May 2023
53	Amended	IPSAS 45 May 2023
59	Amended	*Improvements to IPSAS* October 2018
101	Amended	*Improvements to IPSAS* October 2018
103A	New	*Improvements to IPSAS* October 2018
122	Amended	*Improvements to IPSAS* October 2018
123	Amended	IPSAS 45 May 2023
Heading above paragraph 124A	New	*Improvements to IPSAS* October 2018
124A	New	*Improvements to IPSAS* October 2018
125	Amended	*Improvements to IPSAS* October 2018
125A	New	*Improvements to IPSAS* October 2018
127	Amended	*Improvements to IPSAS* October 2018

Paragraph Affected	How Affected	Affected By
128	Amended	*Improvements to IPSAS* October 2018
144	Amended	IPSAS 46 May 2023
159	Amended	*Improvements to IPSAS* October 2018
175A	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
176A	New	*Improvements to IPSAS* October 2018
176B	New	*Improvements to IPSAS* January 2022
176C	New	IPSAS 45 May 2023
176D	New	IPSAS 46 May 2023
176E	New	IPSAS 49 November 2023
176F	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
177	Amended	IPSAS 33 November 2025
AA1	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA2	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA3	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA4	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA5	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA6	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA7	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA8	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA9	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA10	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

Paragraph Affected	How Affected	Affected By
AA11	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA12	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA13	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA14	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA15	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA16	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA17	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA18	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA19	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA20	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA21	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA22	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
AA23	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE1	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE2	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE3	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE4	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE5	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

Paragraph Affected	How Affected	Affected By
IE6	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE7	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE8	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE9	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE10	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE11	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE12	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE13	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE14	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE15	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE16	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE17	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE18	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE19	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE20	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE21	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE22	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE23	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

Paragraph Affected	How Affected	Affected By
IE24	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE25	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
IE26	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025

IPSAS 39, *EMPLOYEE BENEFITS*

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International Public Sector Accounting Standard 39, *Employee Benefits*, is set out in paragraphs 1–178. All the paragraphs have equal authority. IPSAS 39 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:

   (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

   (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope

2. **This Standard shall be applied by an employer in accounting for all employee benefits, except share-based transactions (see the relevant international or national accounting standard dealing with share-based transactions).**

3. This Standard does not deal with reporting by employee retirement benefit plans (see IPSAS 49, *Retirement Benefit Plans*). This Standard does not deal with benefits provided by social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities.

4. The employee benefits to which this Standard applies include those provided:

   (a) Under formal plans or other formal agreements between an entity and individual employees, groups of employees, or their representatives;

   (b) Under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry, or other multi-employer plans, or where entities are required to contribute to a social security program; or

   (c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

5. Employee benefits include:

   (a) Short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

      (i) Wages, salaries and social security contributions;

      (ii) Paid annual leave and paid sick leave;

      (iii) Profit-sharing and bonuses; and

      (iv) Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

   (b) Post-employment benefits, such as the following:

      (i) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

      (ii) Other post-employment benefits, such as post-employment life insurance and post-employment medical care;

   (c) Other long-term employee benefits, such as the following:

      (i) Long-term paid absences such as long-service leave or sabbatical leave;

(ii) Jubilee or other long-service benefits; and

(iii) Long-term disability benefits; and

(d) Termination benefits.

6. Employee benefits include benefits provided either to employees or to their dependants, and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children, or other dependants, or to others, such as insurance companies.

7. An employee may provide services to an entity on a full-time, part-time, permanent, casual, or temporary basis. For the purpose of this Standard, employees include key management personnel as defined in IPSAS 20, *Related Party Disclosures*.

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

Definitions of Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

(a) **An entity's decision to terminate an employee's employment before the normal retirement date; or**

(b) **An employee's decision to accept an offer of benefits in exchange for the termination of employment.**

Definitions Relating to Classification of Plans

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) **Pool the assets contributed by various entities that are not under common control; and**

(b) **Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.**

State plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

Definitions Relating to the Net Defined Benefit Liability (Asset)

The net defined benefit liability (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The deficit or surplus is:

(a) **The present value of the defined benefit obligation less**

(b) **The fair value of plan assets (if any).**

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets comprise:

(a) **Assets held by a long-term employee benefit fund; and**

(b) **Qualifying insurance policies.**

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) **Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and**

(b) **Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:**

(i) **The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or**

(ii) **The assets are returned to the reporting entity to reimburse it for employee benefits already paid.**

A qualifying insurance policy is an insurance policy[1] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy:

(a) **Can be used only to pay or fund employee benefits under a defined benefit plan; and**

(b) **Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:**

[1] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international or national standard dealing with insurance contracts).

(i) **The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or**

(ii) **The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.**

Definitions Relating to Defined Benefit Cost

Service cost comprises:

(a) **Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;**

(b) **Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and**

(c) **Any gain or loss on settlement.**

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

(a) **Actuarial gains and losses;**

(b) **The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and**

(c) **Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).**

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

(a) **Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and**

(b) **The effects of changes in actuarial assumptions.**

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less:

(a) **Any costs of managing the plan assets; and**

(b) **Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.**

A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Short-Term Employee Benefits

9. Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

(a) Wages, salaries, and social security contributions;

(b) Paid annual leave and paid sick leave;

(c) Profit-sharing and bonuses; and

(d) Nonmonetary benefits (such as medical care, housing, cars, and free or subsidized goods or services) for current employees.

10. An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and Measurement

All Short-Term Employee Benefits

11. **When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:**

(a) **As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.**

(b) **As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IPSAS 12, *Inventories*, and IPSAS 45, *Property, Plant, and Equipment)*.**

12. **Paragraphs 13, 16, and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.**

Short-Term Paid Absences

13. **An entity shall recognize the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:**

(a) **In the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and**

(b) **In the case of non-accumulating paid absences, when the absences occur.**

14. An entity may pay employees for absence for various reasons, including holidays, sickness and short-term disability, maternity or paternity, jury service, and military service. Entitlement to paid absences falls into two categories:

(a) Accumulating; and

(b) Non-accumulating.

15. Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists,

and is recognized, even if the paid absences are nonvesting, although the possibility that employees may leave before they use an accumulated nonvesting entitlement affects the measurement of that obligation.

16. **An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.**

17. The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

18. Non-accumulating paid absences do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave, and paid absences for jury service or military service. An entity recognizes no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-Sharing and Bonus Plans

19. **An entity shall recognize the expected cost of profit-sharing and bonus payments under paragraph 11 when, and only when:**

    (a) **The entity has a present legal or constructive obligation to make such payments as a result of past events; and**

    (b) **A reliable estimate of the obligation can be made.**

    A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

20. In the public sector, some entities have bonus plans that are related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the entity or a segment of the entity. In some cases, such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Because of the objectives of public sector entities, profit-sharing plans are far less common in the public sector than for profit-oriented entities. However, they are likely to be an aspect of employee remuneration in segments of public sector entities that operate on a commercial basis. Some public sector entities may not operate profit-sharing schemes, but may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the entity before the end of the reporting period. However, under other bonus plans, employees receive payments only if they remain with the entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments. Paragraph 22 provides further conditions that are to be satisfied before an entity can recognize the expected cost of performance-related payments, bonus payments, and profit-sharing payments.

21. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

22. An entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme, bonus plan, or profit-sharing scheme when, and only when:

    (a) The formal terms of the plan contain a formula for determining the amount of the benefit;

    (b) The entity determines the amounts to be paid before the financial statements are authorized for issue; or

    (c) Past practice gives clear evidence of the amount of the entity's constructive obligation.

23. An obligation under profit-sharing plans and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognizes the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

24. If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 155–161).

Disclosure

25. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IPSAS 20 requires disclosures of the aggregate remuneration of key management personnel and IPSAS 1, *Presentation of Financial Statements* requires the disclosure of information about employee benefits expense.

Post-employment Benefits—Distinction between Defined Contribution Plans and Defined Benefit Plans

26. Post-employment benefits include items such as the following:

    (a) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

    (b) Other post-employment benefits, such as post-employment life insurance, and post-employment medical care.

    Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements, whether or not they involve the establishment of a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

27. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan, as derived from its principal terms and conditions.

28. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

29. Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

(a) A plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

30. Under defined benefit plans:

(a) The entity's obligation is to provide the agreed benefits to current and former employees; and

(b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

31. Paragraphs 32–51 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans, and insured benefits.

Multi-Employer Plans

32. **An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).**

33. **If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:**

(a) **Account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**

(b) **Disclose the information required by paragraphs 137–150 (excluding paragraph 150(d)).**

34. **When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:**

(a) **Account for the plan in accordance with paragraphs 53 and 54 as if it were a defined contribution plan; and**

(b) **Disclose the information required by paragraph 150.**

35. One example of a multi-employer defined benefit plan is one where:

(a) The plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

(b) Employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

36. Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not

be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual entities participating in the plan; or

(b) The entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph 150.

37. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

38. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

39. **In determining when to recognize, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.**

Defined Benefit Plans that Share Risks between Entities under Common Control

40. Defined benefit plans that share risks between various entities under common control, for example, controlling and controlled entities, are not multi-employer plans.

41. An entity participating in such a plan obtains information about the plan as a whole, measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the entity shall, in its separate or individual financial statements, recognize the net defined benefit cost so charged. If there is no such agreement, arrangement, or policy, the net defined benefit cost shall be recognized in the separate or individual financial statements of the entity that is legally the sponsoring employer for the plan. The other entities shall, in their separate or individual financial statements, recognize a cost equal to their contribution payable for the period.

42. There are cases in the public sector where a controlling entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement, or stated policy, as specified in paragraph 41, the controlled entity accounts on a defined contribution basis and the controlling entity accounts on a defined benefit basis in its consolidated financial statements. The controlled entity also discloses that it accounts on a defined contribution basis in its separate financial statements. A controlled

entity that accounts on a defined contribution basis also provides details of the controlling entity, and states that, in the controlling entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled entity also makes the disclosures required in paragraph 151.

43. **Participation in such a plan is a related party transaction for each individual entity. An entity shall therefore, in its separate or individual financial statements, disclose the information required by paragraph 151.**

State Plans

44. **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 32–39).**

45. State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, state, or local government or by another body (for example, an agency created specifically for this purpose). This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity. While governments may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Standard. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

46. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If an entity's only obligation is to pay the contributions as they fall due, and the entity has no obligation to pay future benefits, it accounts for that state plan as a defined contribution plan.

47. A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

Insured Benefits

48. **An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:**

    (a) **To pay the employee benefits directly when they fall due; or**

    (b) **To pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**

    If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

49. The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

50. Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future

premiums, or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

(a) Accounts for a qualifying insurance policy as a plan asset (see paragraph 8); and

(b) Recognizes other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 118).

51. Where an insurance policy is in the name of a specified plan participant or a group of plan participants, and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees, and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-Employment Benefits—Defined Contribution Plans

52. Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense, and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Recognition and Measurement

53. **When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:**

(a) **As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**

(b) **As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12 and IPSAS 45).**

54. **When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 85.**

Disclosure

55. **An entity shall disclose the amount recognized as an expense for defined contribution plans.**

56. Where required by IPSAS 20, an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-Employment Benefits—Defined Benefit Plans

57. Accounting for defined benefit plans is complex, because actuarial assumptions are required to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

Recognition and Measurement

58. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognized for a defined benefit plan is not necessarily the amount of the contribution due for the period.

59. Accounting by an entity for defined benefit plans involves the following steps:

(a) Determining the deficit or surplus. This involves:

(i) Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 69–71). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 72–76), and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 77–100);

(ii) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 69–71 and 85–88);

(iii) Deducting the fair value of any plan assets (see paragraphs 115–117) from the present value of the defined benefit obligation;

(b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 66).

(c) Determining amounts to be recognized in surplus or deficit:

(i) Current service cost (see paragraphs 72–76 and paragraph 124A).

(ii) Any past service cost and gain or loss on settlement (see paragraphs 101–114).

(iii) Net interest on the net defined benefit liability (asset) (see paragraphs 125–128).

(d) Determining the remeasurements of the net defined benefit liability (asset), to be recognized in net assets/equity, comprising:

(i) Actuarial gains and losses (see paragraphs 130 and 131);

(ii) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 132); and

(iii) Any change in the effect of the asset ceiling (see paragraph 66), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

60. **An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**

61. This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

62. In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the Constructive Obligation

63. **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**

64. The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of Financial Position

65. **An entity shall recognize the net defined benefit liability (asset) in the statement of financial position.**

66. **When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:**

    (a) **The surplus in the defined benefit plan; and**

    (b) **The asset ceiling, determined using the discount rate specified in paragraph 85.**

67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

    (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

    (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

    (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and Measurement—Present Value of Defined Benefit Obligations and Current Service Cost

68. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

    (a) To apply an actuarial valuation method (see paragraphs 69–71);

    (b) To attribute benefit to periods of service (see paragraphs 72–76); and

    (c) To make actuarial assumptions (see paragraphs 77–100).

Actuarial Valuation Method

69. **An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.**

70. The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 72–76), and measures each unit separately to build up the final obligation (see paragraphs 77–100).

71. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing Benefit to Periods of Service

72. **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:**

    (a) **The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until**

    (b) **The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**

73. The projected unit credit method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

74. Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

75. The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

76. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) For the purpose of paragraph 72(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) The amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Actuarial Assumptions

77. Actuarial assumptions shall be unbiased and mutually compatible.

78. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) Demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) Mortality (see paragraphs 83 and 84);

(ii) Rates of employee turnover, disability, and early retirement;

(iii) The proportion of plan members with dependants who will be eligible for benefits;

(iv) The proportion of plan members who will select each form of payment option available under the plan terms; and

(v) Claim rates under medical plans.

(b) Financial assumptions, dealing with items such as:

(i) The discount rate (see paragraphs 85–88);

(ii) Benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 89–97);

(iii) In the case of medical benefits, future medical costs, including claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 98–100); and

(iv) Taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.

79. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

80. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

81. An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see IPSAS 10, *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked, and there is a deep market in index-linked bonds of the same currency and term.

82. **Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.**

Actuarial Assumptions: Mortality

83. **An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.**

84. In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial Assumptions—Discount Rate

85. **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.**

86. One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

87. The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments, and the currency in which the benefits are to be paid.

88. An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period on government bonds, high quality corporate bonds, or by another financial instrument. In some jurisdictions, market yields at the end of the reporting period on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the end of the reporting period on government bonds do not reflect the time value of money. In such cases, the reporting entity determines the rate by another method, such as by reference to market yields on high quality corporate bonds. There may also be circumstances where there is no deep market in government bonds or high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such circumstances, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available financial instrument, such as government bonds or corporate bonds.

Actuarial Assumptions—Salaries, Benefits and Medical Costs

89. **An entity shall measure its defined benefit obligations on a basis that reflects**:

(a) **The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;**

(b) **Any estimated future salary increases that affect the benefits payable;**

(c) **The effect of any limit on the employer's share of the cost of the future benefits;**

(d) **Contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and**

(e) **Estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:**

(i) **Those changes were enacted before the end of the reporting period; or**

(ii) **Historical data, or other reliable evidence, indicate that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.**

90. Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

(a) The entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) The entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 110(c)); or

(c) Benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

91. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

(a) Past service cost, to the extent that they change benefits for service before the change; and

(b) Current service cost for periods after the change, to the extent that they change benefits for service after the change.

92. Estimates of future salary increases take account of inflation, seniority, promotion, and other relevant factors, such as supply and demand in the employment market.

93. Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

(a) The estimated life of the entity; and

(b) The estimated life of the plan.

94. Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 118. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

95. Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

(a) If the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by

paragraph 72 for the gross benefit (i.e., either using the plan's contribution formula or on a straight-line basis); or

(b) If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Paragraph AG13 provides related application guidance.

96. For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 95(a), changes in the contributions result in:

(a) Current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

(b) Actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).

97. Some post-employment benefits are linked to variables such as the level of benefit entitlements from social security pensions or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

98. **Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.**

99. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers, or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilization or delivery patterns, and changes in the health status of plan participants.

100. The level and frequency of claims is particularly sensitive to the age, health status, and gender of employees (and their dependants), and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past Service Cost and Gains and Losses on Settlement

101. **When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting:**

(a) **The benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and**

(b) **The benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.**

102. An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under

the plan and settles the amended benefits later. In those cases an entity recognizes past service cost before any gain or loss on settlement.

103. A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

103A. When a plan amendment, curtailment or settlement occurs, an entity shall recognize and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 101–103 and paragraphs 104–114. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognize any change in that effect in accordance with paragraph 59(d).

Past Service Cost

104. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

105. **An entity shall recognize past service cost as an expense at the earlier of the following dates:**

(a) **When the plan amendment or curtailment occurs; and**

(b) **When the entity recognizes related restructuring costs (see IPSAS 19) or termination benefits (see paragraph 168).**

106. A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

107. A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

108. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

109. Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

110. Past service cost excludes:

(a) The effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) Underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) Estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognized in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 90); and

(d) The increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph 74) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognized the estimated cost of benefits as current service cost as the service was rendered).

Gains and Losses on Settlement

111. The gain or loss on a settlement is the difference between:

(a) The present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

112. **An entity shall recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.**

113. A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

114. In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 48) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 118–121 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and Measurement—Plan Assets

Fair Value of Plan Assets

115. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

116. Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

117. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

118. **When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall:**

(a) **Recognize its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.**

(b) **Disaggregate and recognize changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 126 and 128). The components of defined benefit cost recognized in accordance with paragraph 122 may be recognized net of amounts relating to changes in the carrying amount of the right to reimbursement.**

119. Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph 118 is not relevant (see paragraphs 48–51 and 117).

120. When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 118 is relevant to such cases: the entity recognizes its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 142(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

121. If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of Defined Benefit Cost

122. **An entity shall recognize the components of defined benefit cost, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset, as follows:**

(a) **Service cost (see paragraphs 68–114 and paragraph 124A) in surplus or deficit;**

(b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125–128) in surplus or deficit; and**

(c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132) in net assets/equity.**

123. Other IPSAS require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant, and equipment (see IPSAS 12 and IPSAS 45). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

124. **Remeasurements of the net defined benefit liability (asset) recognized in net assets/equity shall not be reclassified to surplus or deficit in a subsequent period. However, the entity may transfer those amounts recognized in net assets/equity within net assets/equity.**

Current Service Cost

124A. **An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b).**

Net Interest on the Net Defined Benefit Liability (Asset)

125. **An entity shall determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 85.**

125A. **To determine net interest in accordance with paragraph 125, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:**

(a) **The net defined benefit liability (asset) determined in accordance with paragraph 101(b); and**

(b) **The discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b).**

In applying paragraph 125A, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

126. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 66.

127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 125A. An entity shall determine the fair value of the plan assets at the start of the reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine interest revenue for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 101(b). In applying paragraph 127, the entity shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 125A. An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 101, the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph 103A. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the Net Defined Benefit Liability (Asset)

129. Remeasurements of the net defined benefit liability (asset) comprise:

(a) Actuarial gains and losses (see paragraphs 130 and 131);

(b) The return on plan assets (see paragraph 132), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 127); and

(c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 128).

130. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

(a) Unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) The effect of changes to assumptions concerning benefit payment options;

(c) The effects of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) The effect of changes in the discount rate.

131. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

132. In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 78). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

133. **An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**

(a) **Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**

(b) **Intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.**

134. The offsetting criteria are similar to those established for financial instruments in IPSAS 28, *Financial Instruments: Presentation*.

Current/Non-Current Distinction

135. Some entities distinguish current assets and liabilities from noncurrent assets and liabilities. This Standard does not specify whether an entity should distinguish current and noncurrent portions of assets and liabilities arising from post-employment benefits.

Components of Defined Benefit Cost

136. Paragraph 122 requires an entity to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IPSAS 1.

Disclosure

137. **An entity shall disclose information that:**

(a) **Explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 141);**

(b) **Identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 142–146); and**

(c) **Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 147–149).**

138. To meet the objectives in paragraph 137, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

139. If the disclosures provided in accordance with the requirements in this Standard and other IPSAS are insufficient to meet the objectives in paragraph 137, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) Between amounts owing to active members, deferred members, and pensioners.

(b) Between vested benefits and accrued but not vested benefits.

(c) Between conditional benefits, amounts attributable to future salary increases and other benefits.

140. An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) Different geographical locations.

(b) Different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) Different regulatory environments.

(d) Different reporting segments.

(e) Different funding arrangements (e.g., wholly unfunded, wholly or partly funded).

Characteristics of Defined Benefit Plans and Risks Associated with Them

141. An entity shall disclose:

(a) Information about the characteristics of its defined benefit plans, including:

(i) The nature of the benefits provided by the plan (e.g., final salary defined benefit plan or contribution-based plan with guarantee).

(ii) A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 66).

(iii) A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.

(b) A description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g., property, the plan may expose the entity to a concentration of property market risk.

(c) A description of any plan amendments, curtailments and settlements.

(d) The basis on which the discount rate has been determined.

Explanation of Amounts in the Financial Statements

142. An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) The net defined benefit liability (asset), showing separate reconciliations for:

(i) Plan assets.

(ii) The present value of the defined benefit obligation.

(iii) The effect of the asset ceiling.

(b) Any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

143. Each reconciliation listed in paragraph 142 shall show each of the following, if applicable:

(a) Current service cost.

(b) Interest revenue or expense.

(c) Remeasurements of the net defined benefit liability (asset), showing separately:

(i) The return on plan assets, excluding amounts included in interest in (b).

(ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph 78(a)).

(iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph 78(b)).

(iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, i.e., whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) Past service cost and gains and losses arising from settlements. As permitted by paragraph 102, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

(e) The effect of changes in foreign exchange rates.

(f) Contributions to the plan, showing separately those by the employer and by plan participants.

(g) Payments from the plan, showing separately the amount paid in respect of any settlements.

(h) The effects of public sector combinations and disposals.

144. An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active

market (as defined in IPSAS 46) and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:

(a) Cash and cash equivalents;

(b) Equity instruments (segregated by industry type, company size, geography etc.);

(c) Debt instruments (segregated by type of issuer, credit quality, geography etc.);

(d) Real estate (segregated by geography etc.);

(e) Derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc.);

(f) Investment funds (segregated by type of fund);

(g) Asset-backed securities; and

(h) Structured debt.

145. An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

146. An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 78). Such disclosure shall be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, Timing and Uncertainty of Future Cash Flows

147. An entity shall disclose:

(a) A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 146) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

(b) The methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

148. An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

149. To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) A description of any funding arrangements and funding policy that affect future contributions.

(b) The expected contributions to the plan for the next reporting period.

(c) Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-Employer Plans

150. If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) A description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) A description of any agreed allocation of a deficit or surplus on:

(i) Wind-up of the plan; or

(ii) The entity's withdrawal from the plan.

(d) If the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 141–149:

(i) The fact that the plan is a defined benefit plan.

(ii) The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) The expected contributions to the plan for the next reporting period.

(iv) Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) An indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined Benefit Plans that Share Risks Between Entities under Common Control

151. If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(a) The contractual agreement or stated policy for charging the net defined **b**enefit cost or the fact that there is no such policy.

(b) The policy for determining the contribution to be paid by the entity.

(c) If the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 137–149.

(d) If the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 137–139, 141, 144–146 and 149(a) and (b).

152. The information required by paragraph 151(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) That group entity's financial statements separately identify and disclose the information required about the plan; and

(b) That group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure Requirements in Other IPSAS

153. Where required by IPSAS 20, an entity discloses information about:

(a) Related party transactions with post-employment benefit plans; and

(b) Post-employment benefits for key management personnel.

154. Where required by IPSAS 19, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-Term Employee Benefits

155. Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service:

(a) Long-term paid absences such as long service or sabbatical leave;

(b) Jubilee or other long service benefits;

(c) Long-term disability benefits;

(d) Profit sharing and bonuses;

(e) Deferred remuneration; and

(f) Compensation payable by the entity until an individual enters new employment.

156. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognize remeasurements in net assets/equity.

157. This Standard includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs 57–154.

Recognition and Measurement

158. **In recognizing and measuring the surplus or deficit in another long-term employee benefit plan, an entity shall apply paragraphs 58–100 and 115–117. An entity shall apply paragraphs 118–121 in recognizing and measuring any reimbursement right.**

159. **For other long-term employee benefits, an entity shall recognize the net total of the following amounts in surplus or deficit, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset:**

(a) **Service cost (see paragraphs 68–114 and paragraph 124A);**

(b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125-128); and**

(c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132).**

160. One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability.

Disclosure

161. Although this Standard does not require specific disclosures about other long-term employee benefits, other IPSAS may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

Termination Benefits

162. This Standard deals with termination benefits separately from other employee benefits, because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

163. Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

164. The form of the employee benefit does not determine whether it is in exchange provided for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

(b) Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

165. Indicators that an employee benefit is provided in exchange for services include the following:

(a) The benefit is conditional on future service being provided (including benefits that increase if further service is provided).

(b) The benefit is provided in accordance with the terms of an employee benefit plan.

166. Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

167. Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

168. **An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates:**

(a) **When the entity can no longer withdraw the offer of those benefits; and**

(b) **When the entity recognizes costs for a restructuring that is within the scope of IPSAS 19 and involves the payment of termination benefits.**

169. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) When the employee accepts the offer; and

(b) When a restriction (e.g., a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

170. For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

171. When an entity recognizes termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 105).

Measurement

172. **An entity shall measure termination benefits on initial recognition, and shall measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:**

(a) **If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognized, the entity shall apply the requirements for short-term employee benefits.**

(b) **If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity shall apply the requirements for other long-term employee benefits.**

173. Because termination benefits are not provided in exchange for service, paragraphs 72–76 relating to the attribution of the benefit to periods of service are not relevant.

Disclosure

174. Although this Standard does not require specific disclosures about termination benefits, other IPSAS may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

Transitional Provisions

175. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* except that:**

(a) **An entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.**

(b) **In financial statements for periods beginning before January 1, 2018, an entity need not present comparative information for the disclosures required by paragraph 147 about the sensitivity of the defined benefit obligation.**

175A. ***Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025, added Appendix AA. An entity shall apply Appendix AA from the beginning of the first period presented in the first financial statements to which the Appendix applies. An entity shall recognize any initial adjustment arising from the application of Appendix AA in accumulated surpluses or deficits at the beginning of that period.**

Effective Date

176. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2018, it shall disclose that fact.**

176A. **Paragraphs 59, 101, 122, 125, 127, 128 and 159 were amended, and paragraphs 103A, 124A and 125A added by *Improvements to IPSAS*, 2018, issued in October 2018. An entity shall apply these amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted. If an entity applies these amendments earlier, it shall disclose that fact.**

176B. **Paragraphs 3 and 4 were amended by *Improvements to IPSAS*, 2021, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted.**

176C. **Paragraphs 11, 53 and 123 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

176D. **Paragraphs 8 and 144 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

176E. **Paragraph 3 was amended by IPSAS 49, *Retirement Benefit Plans* issued in November 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after**

January 1, 2026. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact.

176F. **Appendix AA (paragraphs AA1-AA23) were added by *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025. An entity shall apply these amendments for annual periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, 2026, it shall disclose that fact.**

177. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Withdrawal and Replacement of IPSAS 25 (2008)

178. This Standard supersedes IPSAS 25, *Employee Benefits* (2008). IPSAS 25 remains applicable until IPSAS 39 is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 39.

Example Illustrating Paragraph 19: Accounting for Performance-Related Bonus Plan

AG1. A performance-related bonus plan requires a government printing unit to pay a specified proportion of its surplus for the year to employees who meet predetermined performance targets and serve throughout the year, i.e., are in post on both the first and last day of the reporting period. If no employees leave during the year, the total bonus payments for the year will be 3% of actual surplus. The entity determines that staff turnover will reduce the payments to 2.5% of actual surplus.

The entity recognizes a liability and an expense of 2.5% of actual surplus.

Example Illustrating Paragraph 37: Accounting for a Multi-Employer Plan

AG2. Along with similar entities in State X, Local Government Unit A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan, there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual local government units participating in the plan. Local Government Unit A therefore accounts for the plan as if it were a defined contribution plan. A funding valuation, which is not drawn up on the basis of assumptions compatible with the requirements of this Standard, shows a deficit of CU480 million(a) in the plan. The plan has agreed, under a binding arrangement, a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. Local Government Unit A's total contributions under the contract are CU40 million.

The entity recognizes a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.

(a) In this Standard monetary amounts are denominated in "currency units (CU)".

Example Illustrating Paragraph 70: Projected Unit Credit Method

AG3. A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is CU10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year five, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:					
– *prior years*	*0*	*131*	*262*	*393*	*524*
– *current year (1% of final salary)*	*131*	*131*	*131*	*131*	*131*
– *current and prior years*	*131*	*262*	*393*	*524*	*655*
Year	*1*	*2*	*3*	*4*	*5*
Opening obligation	*–*	*89*	*196*	*324*	*476*

Interest at 10%	*–*	*9*	*20*	*33*	*48*
Current service cost	*89*	*98*	*108*	*119*	*131*
Closing obligation	*89*	*196*	*324*	*476*	*655*

Note:

1. *The opening obligation is the present value of benefit attributed to prior years.*
2. *The current service cost is the present value of benefit attributed to the current year.*
3. *The closing obligation is the present value of benefit attributed to current and prior years*.

Examples Illustrating Paragraph 73: Attributing Benefit to Years of Service

AG4. A defined benefit plan provides a lump sum benefit of CU100 payable on retirement for each year of service.

A benefit of CU100 is attributed to each year. The current service cost is the present value of CU100. The present value of the defined benefit obligation is the present value of CU100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

AG5. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted, because pension payments begin at the age of 65.

Examples Illustrating Paragraph 74: Vesting and Non-Vesting Benefits

AG6. A plan pays a benefit of CU100 for each year of service. The benefits vest after 10 years of service.

A benefit of CU100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

AG7. A plan pays a benefit of CU100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of CU100 is attributed to each subsequent year.

Examples Illustrating Paragraph 75: Attributing Benefits to Accounting Periods

AG8. A plan pays a lump sum benefit of CU1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A benefit of CU100 (CU1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

AG9. A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of CU100 (CU2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (CU2,000 divided by 20) to each of the first 20 years.

For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of CU200 (CU2,000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

AG10. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

AG11. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 73. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

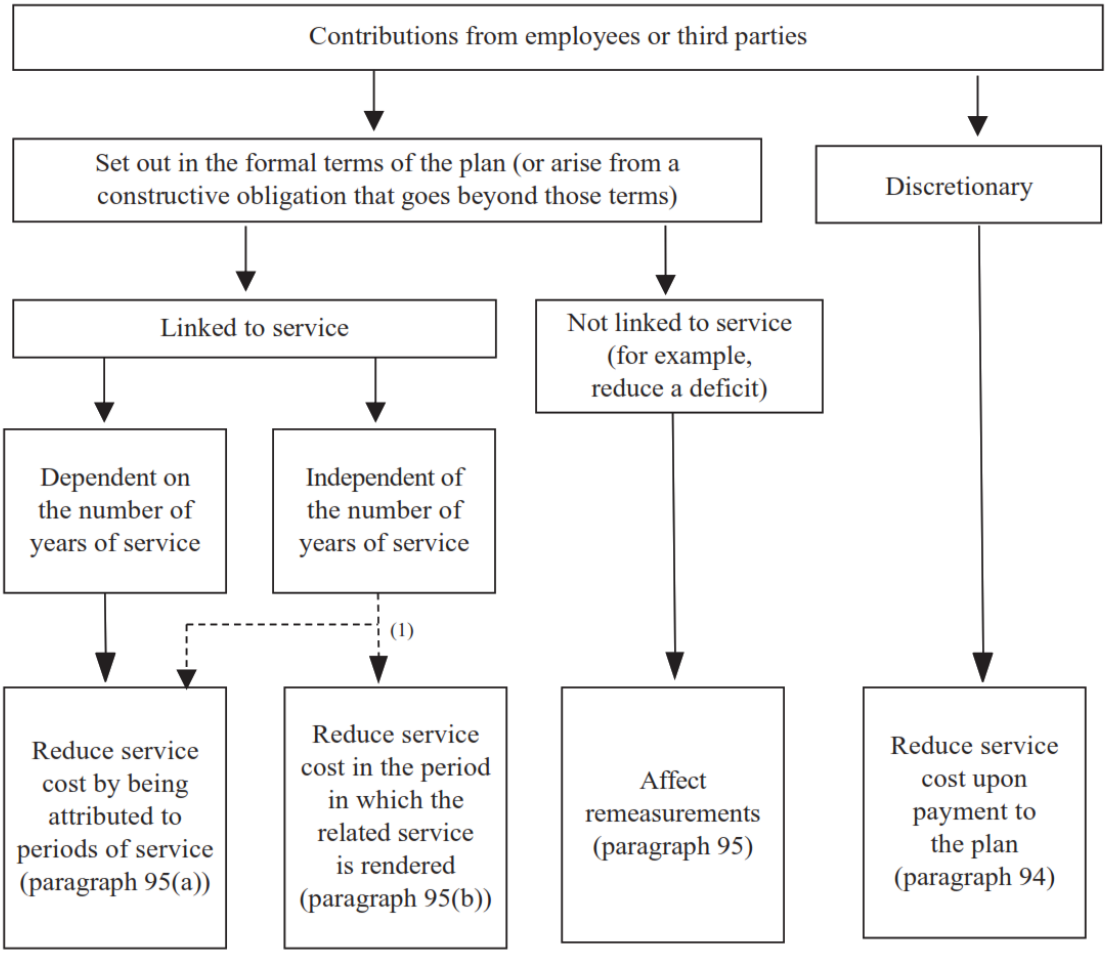
Example Illustrating Paragraph 76: Attributing Benefits to Accounting Periods

AG12. Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Example Illustrating Paragraphs 94 and 95: Contributions from employees or third parties

AG13. The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that an entity is permitted to choose either accounting

Example Illustrating Paragraphs 162-173: Termination Benefits

AG14. Background

As a result of a recent acquisition, an entity plans to close a factory in 10 months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of CU30,000. Employees leaving before closure of the factory will receive CU10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are CU3,200,000 (i.e., 20 × CU10,000 + 100 × CU30,000). As required by paragraph 163, the entity accounts for benefits provided for termination of employment as termination benefits and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

The benefit provided for termination of employment is CU10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service

until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (i.e., all employees will leave employment when the factory closes). Therefore the entity recognizes a liability of CU1,200,000 (i.e., 120 × CU10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognizes the restructuring costs associated with the closure of the factory.

Benefits provided for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the reporting period. In this example, discounting is not required, so an expense of CU200,000 (i.e., CU2,000,000 ÷ 10) is recognized in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

Appendix AA

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Appendix is an integral part of IPSAS 39.

Introduction

AA1. Paragraph 66 of this Standard limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plan and the asset ceiling. Paragraph 8 defines the asset ceiling as '*the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan*'. Identifying when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists, can be challenging.

AA2. Minimum funding requirements exist in many countries to improve the security of the post-employment benefit promise made to members of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.

AA3. Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

AA4. This Appendix applies to all post-employment defined benefits and other long-term employee defined benefits, and addresses:

(a) When refunds or reductions in future contributions should be regarded as available in accordance with the definition of the asset ceiling in paragraph 8;

(b) How a minimum funding requirement might affect the availability of reductions in future contributions; and

(c) When a minimum funding requirement might give rise to a liability.

AA5. For the purpose of this Appendix, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

Application of IPSAS 39 to The Limit on a Defined Benefit Asset and Minimum Funding Requirements

Availability of a Refund or Reduction in Future Contributions

AA6. An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.

AA7. An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realize it at some point during the life of the plan or when the plan liabilities are settled. In particular, such an economic benefit may be available even if it is not realizable immediately at the reporting date.

AA8. The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognize economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.

AA9. In accordance with IPSAS 1, Presentation of Financial Statements, the entity shall disclose information about the key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material

adjustment to the carrying amounts of assets and liabilities within the next financial year. This might include disclosure of any restrictions on the current realizability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

The Economic Benefit Available as a Refund

The Right to a Refund

AA10. A refund is available to an entity only if the entity has an unconditional right to a refund:

(a) During the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (e.g., in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or

(b) Assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or

(c) Assuming the full settlement of the plan liabilities in a single event (i.e., as a plan wind-up).

An unconditional right to a refund can exist whatever the funding level of a plan at the reporting date.

AA11. If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognize an asset.

Measurement of the Economic Benefit

AA12. An entity shall measure the economic benefit available as a refund as the amount of the surplus at the reporting date (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs.

AA13. In measuring the amount of a refund available when the plan is wound up (paragraph AA10(c)), an entity shall include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

AA14. If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realizable only at a future date.

The Economic Benefit Available as a Contribution Reduction

AA15. If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees.

AA16. An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the reporting date as determined by this Standard. Therefore, an entity shall assume no change to the benefits to be provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless the entity makes a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction.

The Effect of a Minimum Funding Requirement on the Economic Benefit Available as a Reduction in Future Contributions

AA17. An entity shall analyze any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) future service.

AA18. Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability in accordance with paragraphs AA22–AA23.

AA19. If there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of:

(a) Any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (i.e., paid the amount before being required to do so); and

(b) The estimated future service cost in each period in accordance with paragraphs AA15-AA16, less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).

AA20. An entity shall estimate the future minimum funding requirement contributions for future service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment described in paragraph AA19(a). An entity shall use assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the reporting date as determined by this Standard. The estimate shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the reporting date.

AA21. When an entity determines the amount described in paragraph AA19(b), if the future minimum funding requirement contributions for future service exceed the future service cost in any given period, that excess reduces the amount of the economic benefit available as a reduction in future contributions. However, the amount described in paragraph AA19(b) can never be less than zero.

When a Minimum Funding Requirement May Give Rise to a Liability

AA22. If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.

AA23. To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognize a liability when the obligation arises. The liability shall reduce the net defined benefit asset or increase the net defined benefit liability so that no gain or loss is expected to result from applying paragraph 66 of this Standard when the contributions are paid.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 39.

Objective

BC1. IPSAS 25 (2008), *Employee Benefits*, was drawn primarily from International Accounting Standard (IAS) 19 (2004), *Employee Benefits*, International Accounting Standard (IASB). The IASB made a number of amendments to IAS 19 in the 2011-2015 period.

BC2. In order to update IPSAS 25, the IPSASB approved a limited scope review of IPSAS 25 to converge with the revised IAS 19. The IPSASB decided not to reopen the public sector specific requirements in IPSAS 25, except for the section on Composite Social Security Programs (see paragraphs BC5 and BC6 below).

BC3. In January 2016, the IPSASB issued Exposure Draft (ED) 59, *Amendments to IPSAS 25, Employee Benefits.* ED 59 proposed amendments to maintain convergence with IAS 19. The proposed amendments made a large number of changes to the text of IPSAS 25. A number of respondents expressed reservations that the scale of these changes impaired the understandability of IPSAS 25. The IPSASB therefore decided to issue a new IPSAS 39, *Employee Benefits*, rather than a revised IPSAS 25, in order to help preparers.

BC4. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 39, *Employee Benefits*. With the exception of Composite Social Security Programs, the Basis for Conclusions only considers those areas where IPSAS 39 departs from the main requirements of IAS 19 (amended in 2011 onwards), or where the IPSASB considered such departures.

Composite Social Security Programs

BC5. ED 59 indicated that the IPSASB was considering the deletion of the section on Composite Social Security Programs, because the IPSASB was not aware that it had been applied in any jurisdiction. The IPSASB specifically asked for comments on this issue.

BC6. No respondent to ED 59 identified a jurisdiction where entities applied these requirements. The majority of respondents supported the deletion of the section on Composite Social Security Programs. As the IPSASB did not identify a new and compelling reason to retain the section, the IPSASB decided not to include it in IPSAS 39.

State Plans

BC7. This Standard retains the requirement in IAS 19 that an entity accounts for a state plan in the same way as for a multi-employer plan. The IPSASB concluded that it should provide further commentary to clarify the approach to accounting for state plans by public sector entities as in IPSAS 25. Paragraph 47 provides a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Only where that presumption is rebutted is the state plan accounted for as a defined contribution plan.

Defined Benefit Plans with Participating Entities under Common Control

BC8. In the public sector, there are likely to be many cases where entities under common control participate in defined benefit plans. IAS 19 includes commentary on defined benefit plans that share risks between entities under common control. The IPSASB considered that the requirements in IAS 19 are appropriate in the public sector. The IPSASB also considered it appropriate to emphasize that, unless there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole to an individual entity, it is inappropriate for controlled entities to account on a defined benefit basis as in IPSAS 25. In such cases, the controlling entity should account for such plans on a defined benefit basis in its consolidated financial statements. Controlled entities (a) account on a defined contribution basis, (b) identify the controlling entity, and (c) disclose that the controlling entity is accounting on a defined benefit

basis in its consolidated financial statements. This is reflected in paragraph 42. Controlled entities also make the disclosures specified in paragraph 151.

Discount Rates

BC9. IAS 19 requires adoption of a discount rate based on the market yields at the end of the reporting period on high quality corporate bonds. The IPSASB decided that the discount rate should reflect the time value of money, and considered that entities should be left to determine the rate that best achieves that objective in the same way as in IPSAS 25. The IPSASB considered that the time value of money may be best reflected by reference to market yields on government bonds, high quality corporate bonds, or any other financial instrument. The discount rate used is not intended to incorporate the risk associated with defined benefit obligations or entity-specific credit risk. There is an additional disclosure requirement at paragraph 141(d) informing users of the basis on which the discount rate has been determined.

BC10. The IPSASB considered whether it should provide guidance to assist entities operating in jurisdictions where there is neither a deep market in government bonds nor a deep market in high quality corporate bonds to determine a discount rate that reflects the time value of money. The IPSASB acknowledges that determination of an appropriate discount rate is likely to be a difficult issue for entities operating in such jurisdictions, and that such entities may be in the process of migrating, or have recently migrated, to the accrual basis of accounting. However, the IPSASB concluded that this is not an issue that applies only in the public sector, and that there is an insufficiently clear public sector-specific reason to provide such guidance.

Other Long-Term Employee Benefits: Long-Term Disability Benefits

BC11. IAS 19 lists long-term disability benefits as an example of an "other long-term employee benefit." IAS 19 states that "the measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits." In the public sector, disability benefits related to certain areas of service provision, such as the military, may be financially highly significant, and related actuarial gains or losses volatile.

BC12. Therefore, IPSAS 39 retains the rebuttable presumption included in IPSAS 25 that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for using the same requirements as for post-employment benefits.

Other Long-Term Employee Benefits: Compensation Payable by the Reporting Entity until an Individual Enters New Employment

BC13. Although it does not consider it likely that such circumstances are widespread, the IPSASB acknowledged that there may be cases where a reporting entity is contractually bound to make compensation payments separate from a termination benefit to a past employee until he/she enters new employment. The list of other long-term benefits in paragraph 155 was therefore amended to include such circumstances, as in IPSAS 25.

Remeasurements

BC14. IAS 19 (amended in 2011) recognizes remeasurements of the net defined liability (asset) in other comprehensive income rather than in profit or loss. The IPSASB noted that *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* does not acknowledge "other comprehensive income", and that "other comprehensive income" is not a defined term in IPSAS 1, *Presentation of Financial Statements*. The IPSASB considered that recognizing remeasurements in net assets/equity would have the same accounting outcome as IAS 19 in not impacting surplus or deficit with components of defined benefit cost that have different predictive values. Therefore, the IPSASB decided to recognize remeasurements in net assets/equity rather than surplus or deficit.

BC15. The IPSASB noted that paragraph 45 of IPSAS 1 requires an entity to present each material class of similar items separately in the financial statements. Items of a dissimilar nature or function are presented separately, unless they are immaterial. Therefore, the IPSASB considered that a separate presentation of remeasurements of post-employment benefits may be required in the statement of changes in net assets/equity, if it is material.

Requirements of Government Finance Statistics Reporting Guidelines

BC16. The IPSASB considered the requirements of Government Finance Statistics (GFS) reporting guidelines on the classification, presentation, recognition, measurement and disclosure of employee benefits and identified some differences with both the revised IAS 19 and with IPSAS 39.

BC17. GFS reporting guidelines do not apply the net interest approach, but rather recognize the proceeds of fund assets and interest on fund liabilities according to the economic nature of these revenues and expenses. GFS then attributes the property income and the increase in the liability for benefit entitlements due to the passage of time through an entry in “property expense for investment income disbursements”. In IPSAS 39 equivalent entries are presented in surplus or deficit.

BC18. For autonomous funds recognized outside the employer’s accounts, GFS recognizes a claim of the pension fund on the pension manager for deficits of the pension fund in specific circumstances. In these cases, GFS does not require the recognition of an interest expense in the employers’ accounts due to the passage of time in recognizing that claim.

BC19. In GFS, the plan assets are generally measured on the same basis as other assets, which is normally market value. Therefore, unlike IPSAS 39, no additional calculation to include the discount rate in the plan assets as a whole is necessary to estimate present value. However, in GFS some assets are not measured at market value. This may give rise to different valuations between IPSAS 39 and GFS (for example: loans are measured at nominal value in GFS and usually at amortized cost in IPSAS).

BC20. In GFS, any changes in the volume or value of assets that do not result from transactions are recorded in the Statement of Other Economic Flows, which includes the effect of the passage of time. In GFS, the pension fund only records actual revenue from transactions such as interest, dividends and rents in the Statement of Operations.

BC21. GFS does not disaggregate employee benefits into short-term and long-term employee benefits and does not require specific disclosures on employee benefits, except for the supplementary table on pension schemes in social insurance specified in the System of National Accounts 2008.

BC22. The IPSASB concluded that these differences are due to the different objectives and presentational frameworks of IPSAS and GFS. They do not constitute public sector specific reasons that warrant departure from IAS 19.

Revision of IPSAS 39 as a result of *Improvements to IPSAS, 2018*

BC23. The IPSASB reviewed the revisions to IAS 19, *Employee Benefits*, included in *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) issued by the IASB in February 2018, and the IASB’s rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 39 as a result of *Improvements to IPSAS, 2021*

BC24. Stakeholders noted that the word “composite” could be deleted from the term “composite social security programs” because the IPSAS defined term “composite social security programs” and related requirements were not included in the final version of IPSAS 39 (see paragraphs BC5-BC6). The IPSASB agreed with this view and decided to amend paragraphs 3 and 4 of IPSAS 39 in *Improvements to IPSAS, 2021*.

Revisions of IPSAS 39 as a result of *Amendments to IPSAS Standards: Specific IFRIC Interpretations*

BC25. In September 2023, the IPSASB initiated a narrow scope project to consider seven IFRIC and SIC Interpretations that were issued by the IFRS Interpretations Committee, but had not yet been considered by the IPSASB, to determine their applicability to the public sector. In its assessment, the IPSASB considered whether public sector entities may face similar application issues, and whether incorporating guidance based on the Interpretations into IPSAS would help clarify the application of existing accounting principles.

BC26. The IPSASB reviewed the requirements of IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, first issued by the IASB in 2007 and amended in 2009, and the IFRS Interpretations Committee's considerations in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 39.

BC27. In April 2024, the IPSASB published Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations*, which proposed to incorporate guidance into IPSAS to clarify the application of existing accounting principles, based on IFRIC 14. The IPSASB received strong constituent support for these proposals. Therefore, it decided to amend IPSAS 39 to incorporate the proposed guidance.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 39.

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Example 1: Effect of the Minimum Funding Requirement when there is a Surplus and the Minimum Funding Contributions Payable are Fully Refundable to the Entity

IE1. An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IPSAS 39) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the reporting date to contribute CU200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

	CU
Fair value of assets	1,200
Present value of defined benefit obligation under IPSAS 39	(1,100)
Surplus	100

IE2. Paragraph AA23 of Appendix AA of IPSAS 39 clarifies that the entity is required to recognize a liability to the extent that the contributions payable are not fully available. Payment of the contributions of CU200 will increase the surplus from CU100 to CU300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognized for the obligation to pay the contributions and the net defined benefit asset is CU100.

Example 2: Effect of a Minimum Funding Requirement when there is a Deficit and the Minimum Funding Contributions Payable would not be Fully Available

IE3. An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IPSAS 39) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the reporting date to pay additional contributions of CU300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the service cost. The year-end valuations for Plan B are set out below.

	CU
Fair value of assets	1,000
Present value of defined benefit obligation under IPSAS 39	(1,100)
Deficit	(100)

IE4. The payment of CU300 would change the deficit of CU100 to a surplus of CU200. Of this CU200, 60 per cent (CU120) is refundable.

IE5. Therefore, of the contributions of CU300, CU100 eliminates the deficit and CU120 (60 per cent of CU200) is available as an economic benefit. The remaining CU80 (40 per cent of CU200) of the contributions paid is not available to the entity.

IE6. Paragraph AA23 of Appendix AA of IPSAS 39 clarifies that the entity is required to recognize a liability to the extent that the additional contributions payable are not available to it.

IE7. Therefore, the net defined benefit liability is CU180, comprising the deficit of CU100 plus the additional liability of CU80 resulting from the requirements in Paragraph AA23 of Appendix AA of IPSAS 39. No other liability is recognized in respect of the statutory obligation to pay contributions of CU300.

	CU
Fair value of assets	1,000
Present value of defined benefit obligation under IPSAS 39	(1,100)
Deficit	(100)
Effect of the asset ceiling	(80)
Net defined benefit liability	(180)

IE8. When the contributions of CU300 are paid, the net defined benefit asset will be CU120.

Example 3: Effect of a Minimum Funding Requirement when the Contributions Payable would not be Fully Available and the Effect on the Economic Benefit Available as a Future Contribution Reduction

IE9. An entity has a funding level on the minimum funding basis (which it measures on a different basis from that required by IPSAS 39) of 95 per cent in Plan C. The minimum funding requirements require the entity to pay contributions to increase the funding level to 100 per cent over the next three years. The contributions are required to make good the deficit on the minimum funding basis (shortfall) and to cover future service.

IE10. Plan C also has a surplus at the reporting date of CU50, which cannot be refunded to the entity under any circumstances.

IE11. The nominal amounts of contributions required to satisfy the minimum funding requirements in respect of the shortfall and the future service for the next three years are set out below.

Year	Total contributions for minimum funding requirement (CU)	Contributions required to make good the shortfall (CU)	Contributions required to cover future service (CU)
1	135	120	15
2	125	112	13
3	115	104	11

IE12. The entity's present obligation in respect of services already received includes the contributions required to make good the shortfall but does not include the contributions required to cover future service.

IE13. The present value of the entity's obligation, assuming a discount rate of 6 per cent per year, is approximately CU300, calculated as follows:

$[CU120/(1.06) + CU112/(1.06)^2 + CU104/(1.06)^3]$

IE14. When these contributions are paid into the plan, the surplus (i.e., the fair value of assets less the present value of the defined benefit obligation) would, other things being equal, increase from CU50 to CU350 (CU300 + CU50).

IE15. However, the surplus is not refundable although an asset may be available as a future contribution reduction.

IE16. In applying paragraph AA19 of Appendix AA of IPSAS 39, the entity determines that there is no prepayment as described in paragraph AA19(a). The amounts available as a reduction in future contributions when applying paragraph AA19(b) of Appendix AA of IPSAS 39 are set out below.

Year	Service cost (CU)	Minimum contributions required to cover future service (CU)	Amount available as contribution reduction (CU)
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

IE17. Assuming a discount rate of 6 per cent, the present value of the economic benefit available as a future contribution reduction is therefore equal to:

$(CU2)/(1.06) + CU0/(1.06)^2 + CU2/(1.06)^3 + CU4/(1.06)^4 ... = CU56$

IE18. Paragraph AA23 of Appendix AA of IPSAS 39 clarifies that the entity is to recognize a liability to the extent that the additional contributions payable will not be fully available. Therefore, the effect of the asset ceiling is CU294 (CU50 + CU300 - CU56).

IE19. The entity recognizes a net defined benefit liability of CU244 in the statement of financial position. No other liability is recognized in respect of the obligation to make contributions to fund the minimum funding shortfall.

	CU
Surplus	50
Net defined benefit asset (before consideration of the minimum funding requirement)	50
Effect of the asset ceiling	(294)
Net defined benefit liability	(244)

IE20. When the contributions of CU300 are paid into the plan, the net defined benefit asset will become CU56 (CU300 – CU244).

Example 4: Effect of a Prepayment when a Minimum Funding Requirement Exceeds the Expected Future Service Charge

IE21. An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.

IE22. Plan D has a surplus of CU35 at the beginning of 20X1. This example assumes that the discount rate and expected return on assets are 0 per cent, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

IE23. The minimum contributions required to cover future service are CU15 for each of the next five years. The expected service cost is CU10 in each year.

IE24. The entity makes a prepayment of CU30 at the beginning of 20X1 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to CU65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

Year	Service cost (CU)	Minimum funding requirement contribution before prepayment (CU)	Minimum funding requirement contribution after prepayment (CU)
20X1	10	15	0
20X2	10	15	0
20X3	10	15	15
20X4	10	15	15
20X5	10	15	15
Total	50	75	45

IE25. In accordance with paragraphs AA19 and AA21 of Appendix AA of IPSAS 39, at the beginning of 20X1, the economic benefit available as a reduction in future contributions is the sum of:

(a) CU30, being the prepayment of the minimum funding requirement contributions; and

(b) Nil. The estimated minimum funding requirement contributions required for future service would be CU75 if there was no prepayment. Those contributions exceed the estimated future service cost (CU50); therefore, the entity cannot use any part of the surplus of CU35 noted in paragraph IE22 (see paragraph AA21 of Appendix AA of IPSAS 39).

IE26. Assuming a discount rate of 0 per cent, the present value of the economic benefit available as a reduction in future contributions is equal to CU30. Thus, in accordance with paragraph 66 of IPSAS 39, the entity recognizes a net defined benefit asset of CU30 (because this is lower than the surplus of CU65).

COMPARISON WITH IAS 19

IPSAS 39 is drawn primarily from IAS 19 (issued in 2011, including amendments up to December 31, 2018). The main differences between IPSAS 39 and IAS 19 are as follows:

- IPSAS 39 contains additional guidance on public sector bonus plans.
- For discounting post-employment obligations, IAS 19 requires entities to apply a discount rate based on yields on high quality corporate bonds consistent with the currency and estimated term of the post-employment benefit obligations. The requirement in IPSAS 39 is that entities apply a rate that reflects the time value of money. IPSAS 39 also contains a requirement that entities disclose the basis on which the discount rate has been determined.
- IPSAS 39 includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in the same way as for post-employment benefits. IAS 19 does not include such a rebuttable presumption.
- IPSAS 39 recognizes remeasurements of the net defined benefit liability (asset) in net assets/equity. IAS 19 recognizes them in other comprehensive income.
- IPSAS 39 includes authoritative text in Appendix AA, based on guidance in IFRIC *14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, first issued by the IASB in 2007 and amended in 2009. The IASB issues IFRICs as separate documents.
- IPSAS 39 uses different terminology, in certain instances, from IAS 19. The most significant examples are the use of the terms “revenue”, “controlling” and “controlled entities”. The equivalent terms in IAS 19 are “income”, “parent” and “subsidiaries”.

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IPSAS 40, *PUBLIC SECTOR COMBINATIONS*

Acknowledgment

The acquisition accounting requirements of this International Public Sector Accounting Standard (IPSAS) draw upon International Financial Reporting Standard (IFRS®) 3, *Business Combinations,* published by the International Accounting Standards Board (IASB®). Extracts from IFRS 3 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 40, *PUBLIC SECTOR COMBINATIONS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 40, *Public Sector Combinations* was issued in January 2017.

Since then, IPSAS 40 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 48, *Transfer Expenses* (issued May 2023)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (Issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2019* (issued January 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41, *Financial Instruments* (issued August 2018)

Table of Amended Paragraphs in IPSAS 40

Paragraph Affected	How Affected	Affected By
25	Amended	IPSAS 41 August 2018
34	Amended	IPSAS 47 May 2023
45	Amended	IPSAS 41 August 2018
68	Amended	IPSAS 43 January 2022
70	Amended	IPSAS 41 August 2018
71	Amended	IPSAS 43 January 2022
72	Amended	IPSAS 46 May 2023
79	Amended	IPSAS 47 May 2023
Heading above paragraph 82A	New	IPSAS 43 January 2022
82A	New	IPSAS 43 January 2022
82B	New	IPSAS 43 January 2022

Paragraph Affected	How Affected	Affected By
Heading above paragraph 84A	New	IPSAS 44 May 2022
84A	New	IPSAS 44 May 2022
100A	New	*Improvements to IPSAS* October 2018
111	Amended	IPSAS 41 August 2018
115	Amended	IPSAS 41 August 2018 IPSAS 47 May 2023
117	Amended	IPSAS 41 August 2018
120	Amended	IPSAS 43 January 2022 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
124	Amended	IPSAS 44 May 2022 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
126A	Amended	*COVID-19: Deferral of Effective Dates* November 2020
126B	New	*Improvements to IPSAS* October 2018
126C	New	*Improvements to IPSAS* January 2020 IPSAS 33 November 2025
126D	New	*Improvements to IPSAS* January 2020
126E	New	IPSAS 43 January 2022
126F	New	IPSAS 44 May 2022
126G	New	IPSAS 46 May 2023
126H	New	IPSAS 47 May 2023
126I	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
AG58	Amended	IPSAS 47 May 2023
Heading above paragraph AG72	Deleted	IPSAS 43 January 2022
AG72	Deleted	IPSAS 43 January 2022
AG73	Deleted	IPSAS 43 January 2022
AG74	Deleted	IPSAS 43 January 2022
AG76	Amended	IPSAS 43 January 2022
AG86	Amended	IPSAS 47 May 2023
AG88	Amended	IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
AG89	Amended	IPSAS 43 January 2022
AG91	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
Heading above paragraph AG94	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
AG94	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
IE163	Amended	IPSAS 47 May 2023
IE164	Amended	IPSAS 47 May 2023 IPSAS 48 May 2023
IE165	Amended	IPSAS 48 May 2023
IE167	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
IE168	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
IE169	Amended	IPSAS 45 May 2023
IE170	Amended	IPSAS 45 May 2023
IE171	Amended	IPSAS 45 May 2023
IE176	Amended	IPSAS 47 May 2023
IE180	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
IE185	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023
IE192	Amended	IPSAS 45 May 2023 IPSAS 46 May 2023 IPSAS 47 May 2023
IE224	Amended	IPSAS 43 January 2022
IE250	Amended	IPSAS 47 May 2023
IE263	Amended	IPSAS 47 May 2023
IE264	Amended	IPSAS 47 May 2023 IPSAS 48 May 2023
IE265	Amended	IPSAS 48 May 2023
IE266	Deleted	IPSAS 48 May 2023

Paragraph Affected	How Affected	Affected By
IE278	Amended	IPSAS 46 May 2023

IPSAS 40, *PUBLIC SECTOR COMBINATIONS*

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International Public Sector Accounting Standard 40, *Public Sector Combinations*, is set out in paragraphs 1–62. All the paragraphs have equal authority. IPSAS 40 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. To accomplish that, this Standard establishes principles and requirements for how:

   (a) A reporting entity classifies a public sector combination as an amalgamation or an acquisition;

   (b) A resulting entity recognizes and measures in its financial statements the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;

   (c) A resulting entity recognizes and measures components of net assets/equity and other adjustments recognized in an amalgamation;

   (d) An acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;

   (e) An acquirer recognizes and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and

   (f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a public sector combination.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for public sector combinations.**

3. **This Standard applies to a transaction or other event that meets the definition of a public sector combination. This Standard does not apply to:**

   (a) **The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.**

   (b) **The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity shall identify and recognize the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in IPSAS 31, *Intangible Assets*) and liabilities assumed. Such a transaction or event does not give rise to goodwill.**

   (c) **The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity shall identify and recognize the individual liabilities assumed.**

4. **The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in IPSAS 35, *Consolidated Financial Statements*, of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.**

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

   A public sector combination is the bringing together of separate operations into one public sector entity.

General Definitions Related to All Public Sector Combinations

For the purposes of this Standard, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.

An asset is identifiable if it either:

(a) **Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or**

(b) **Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

A mutual entity is an entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.

An operation is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

For the purposes of this Standard, owners is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.

A public sector combination under common control is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.

Definitions Related to Amalgamations

An amalgamation gives rise to a resulting entity and is either:

(a) **A public sector combination in which no party to the combination gains control of one or more operations; or**

(b) **A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.**

(Paragraph AG1 provides additional guidance.)

The amalgamation date is the date on which the resulting entity obtains control of the combining operations.

A combining operation is an operation that combines with one or more other operations to form the resulting entity in an amalgamation.

A resulting entity is the entity that is the result of two or more operations combining in an amalgamation (paragraph AG1 provides additional guidance).

Definitions Relating to Acquisitions

An acquired operation is the operation that the acquirer gains control of in an acquisition.

An acquirer is the entity that gains control of one or more operations in an acquisition.

An acquisition is a public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.

The acquisition date is the date on which the acquirer gains control of the acquired operation.

Contingent consideration is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Identifying a Public Sector Combination

6. **An entity shall determine whether a transaction or other event is a public sector combination by applying the definitions in this Standard, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the entity shall account for the transaction or other event in accordance with other IPSAS. Paragraphs AG2–AG9 provide guidance on identifying a public sector combination.**

Classification of Public Sector Combinations

7. **If no party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation. Paragraphs AG10–AG18 provide guidance on determining whether one party to a public sector combination gains control of one or more operations as a result of that combination.**

8. **If one party to a public sector combination gains control of one or more operations as a result of the combination, an entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of one or more operations shall be classified as an acquisition, unless it has the economic substance of an amalgamation.**

9. **In determining the classification of the public sector combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting and that satisfies the qualitative characteristics (QCs).To assess the economic substance of the combination, an entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation. Paragraphs AG19–AG39 provide additional guidance.**

10. An analysis of the indicators relating to consideration and to the decision-making process in paragraphs 12–13 will usually produce a conclusive result and provide sufficient evidence about the economic substance of the public sector combination to determine whether the combination is an amalgamation. In such circumstances, the resulting classification and the associated accounting treatment will ensure that users have access to information that meets the objectives of financial reporting and that satisfies the QCs.

11. In exceptional circumstances, after applying the indicators in paragraphs 12–13, the results may be inconclusive or may not provide sufficient evidence about the economic substance of the public sector combination. In such circumstances, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the QCs, having regard to paragraph 14. Paragraphs AG40–AG41 provide additional guidance.

Indicators that May Provide Evidence that the Combination is an Amalgamation

Indicators Relating to Consideration

12. The following indicators may provide evidence that the combination is an amalgamation:

    (a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);

    (b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or

    (c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).

Indicators Relating to the Decision-Making Process

13. The following indicators may provide evidence that the combination is an amalgamation:

    (a) A public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process (paragraphs AG32–AG35 provide additional guidance);

    (b) A public sector combination is subject to approval by each party's citizens through referenda (paragraph AG36 provides additional guidance); or

    (c) A public sector combination under common control occurs (paragraphs AG37–AG39 provide additional guidance).

Additional matters to be taken into account where the indicators relating to consideration and the decision-making process do not provide sufficient evidence to determine whether the combination is an amalgamation

14. The analysis of the indicators relating to consideration and the decision-making process may, in exceptional circumstances, produce inconclusive results or not provide sufficient evidence to determine whether the combination is an amalgamation, based on the economic substance of the public sector combination and the indicators in paragraphs 12–13. In such circumstances, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46 provide additional guidance. An entity also considers which classification and resulting accounting treatment would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance.

Accounting for Amalgamations

15. **A resulting entity shall account for each amalgamation by applying the modified pooling of interests method of accounting.**

The Modified Pooling of Interests Method of Accounting

16. Applying the modified pooling of interests method of accounting requires:

    (a) Identifying the resulting entity;

    (b) Determining the amalgamation date;

    (c) Recognizing and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in IPSAS; and

(d) Recognizing and measuring the components of net assets/equity and other adjustments from an amalgamation.

Identifying the Resulting Entity

17. **For each amalgamation, a resulting entity shall be identified.**

18. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." The resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation.

Determining the Amalgamation Date

19. **The resulting entity shall identify the amalgamation date, which is the date on which it obtains control of the combining operations.**

20. The date on which the resulting entity obtains control of the combining operations may be the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations. It is possible that the resulting entity will not receive legal title to the assets or assume legal responsibility for the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a different date. For example, legislation or a written agreement may provide that the resulting entity obtains control of the assets and liabilities of the combining operations on a specified date. A resulting entity shall consider all pertinent facts and circumstances in identifying the amalgamation date.

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

Recognition Principle

21. **As of the amalgamation date, the resulting entity shall recognize the identifiable assets, liabilities and any non-controlling interests that are recognized in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets and liabilities received is subject to the conditions specified in paragraphs 22–23.**

Recognition Conditions

22. **The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity (paragraphs AG51–AG52 provide related application guidance).**

23. To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* at the amalgamation date. For example, costs that the resulting entity expects, but is not obliged, to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the amalgamation date. Therefore, the resulting entity does not recognize those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognizes those costs in its post-combination financial statements in accordance with other IPSAS.

Classifying or Designating Assets and Liabilities in an Amalgamation

24. **At the amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the**

combining operations. A resulting entity shall not adopt different classifications or designations on initial recognition, even if this is permitted by other IPSAS.

25. In some situations, IPSAS provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the resulting entity shall make on the basis of the classifications or designations previously applied by the combining operations include but are not limited to:

    (a) Classification of particular financial assets and liabilities as measured at fair value or at amortized cost, in accordance with IPSAS 41, *Financial Instruments*;

    (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 41; and

    (c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 41 (which is a matter of 'classification' as this Standard uses that term).

Measurement Principle

26. **The resulting entity shall measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirements of paragraph 27 (paragraphs AG53–AG54 provide related application guidance).**

27. **As of the amalgamation date, the resulting entity shall adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.**

28. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of IPSAS, is adopted by that entity, and the carrying amounts of the identifiable assets and liabilities of the combining operations are adjusted, where required, to conform to those accounting policies.

29. The resulting entity shall measure any non-controlling interests in a combining operation at their carrying amounts in the financial statements of that combining operation as of the amalgamation date, adjusted for the non-controlling interests' proportionate share of the adjustments made in accordance with paragraph 27.

30. Paragraphs 33–35 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

31. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 32–35 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity shall account for those items by applying the requirements in paragraphs 32–35, which will result in some items being:

    (a) Recognized either by applying recognition conditions in addition to those in paragraphs 22–23 or by applying the requirements of other IPSAS, with results that differ from applying the recognition principle and conditions.

    (b) Measured at an amount other than their amalgamation date carrying amounts.

Exception to the Recognition Principle

Licenses and similar rights previously granted by one combining operation to another combining operation

32. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset by the recipient combining operation shall be recognized by the resulting

entity as an intangible asset. The license or similar right shall not be eliminated in accordance with paragraph 22 (paragraphs AG55–AG56 provide related application guidance).

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

33. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax due as part of the terms of the amalgamation. The resulting entity shall not recognize any taxation items that are forgiven as a result of the terms of the amalgamation (paragraphs AG57–AG58 provide related application guidance).

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with IPSAS 47, *Revenue*.

Employee Benefits

35. The resulting entity shall recognize and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with IPSAS 39, *Employee Benefits*.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

36. **An amalgamation does not give rise to goodwill (paragraphs AG59–AG60 provide related application guidance).**

37. **The resulting entity shall recognize within net assets/equity amounts equal and opposite to the following items:**

    (a) **The carrying amounts of the combining operations' assets**;

    (b) **The carrying amounts of the combining operations' liabilities; and**

    (c) **The carrying amounts of the combining operations' non-controlling interests.**

38. **The resulting entity shall recognize within net assets/equity the corresponding adjustments in respect of:**

    (a) **The elimination of transactions between combining operations in accordance with paragraph 22;**

    (b) **Adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies, in accordance with paragraph 27; and**

    (c) **Adjustments made in respect of the exceptions to the recognition and/or measurement principles, in accordance with paragraphs 32–35.**

39. **The resulting entity may present the amounts recognized within net assets/equity in accordance with paragraphs 37 and 38 as either:**

    (a) **A single opening balance; or**

    (b) **As separate components of net assets/equity.**

Measurement Period

40. **If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity shall report in its financial statements provisional**

amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity shall retrospectively adjust the provisional amounts recognized at the amalgamation date to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the resulting entity shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the resulting entity receives the information it was seeking about facts and circumstances that existed as of the amalgamation date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the amalgamation date.

41. The measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognized for an amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations as of the amalgamation date in accordance with the requirements of this Standard. The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations will generally be available at the amalgamation date. However, this may not be the case where combining operations have previously prepared their financial statements using different accounting policies.

42. The resulting entity recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by adjusting components of net assets/equity recognized in accordance with paragraphs 37–38. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to the gain or loss resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

43. During the measurement period, the resulting entity shall recognize adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the amalgamation date. Thus, the resulting entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation or amortization recognized in completing the initial accounting.

44. After the measurement period ends, the resulting entity shall revise the accounting for an amalgamation only to correct an error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Amalgamation-Related Costs

45. Amalgamation-related costs are costs the resulting entity or combining operations incur to effect an amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining operations shall account for amalgamation-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IPSAS 28, *Financial Instruments: Presentation*, and IPSAS 41, *Financial Instruments*.

Subsequent Measurement and Accounting

46. In general, a resulting entity shall subsequently measure and account for assets and liabilities received and equity instruments issued in an amalgamation in accordance with other applicable IPSAS for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets received and liabilities assumed or incurred in an amalgamation:

    (a) Licenses and similar rights previously granted by one combining operation to another combining operation;

    (b) Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation; and

    (c) Income taxes (where not included in the terms of the amalgamation).

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation

47. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. A resulting entity that subsequently sells this license or similar right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

48. A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an amalgamation, shall be reassessed prospectively in accordance with other IPSAS (paragraphs AG61–AG63 provide related application guidance).

Income Taxes (Where not Included in the Terms of the Amalgamation)

49. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the amalgamation. The resulting entity shall account for the tax forgiven prospectively in accordance with the relevant international or national accounting standard dealing with income taxes.

Presentation of Financial Statements

50. **Except where a resulting entity is not a new entity following a public sector combination, the resulting entity's first set of financial statements following the amalgamation shall comprise:**

    (a) **An opening statement of financial position as of the amalgamation date;**

    (b) **A statement of financial position as at the reporting date;**

    (c) **A statement of financial performance for the period from the amalgamation date to the reporting date;**

    (d) **A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;**

    (e) **A cash flow statement for the period from the amalgamation date to the reporting date;**

    (f) **If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and**

(g) **Notes, comprising a summary of significant accounting policies and other explanatory notes.**

51. **Where a resulting entity is not a new entity following a public sector combination, the resulting entity shall disclose:**

(a) **The amounts recognized of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;**

(b) **Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and**

(c) **Any adjustments made to eliminate transactions between the combining operations.**

52. Subject to the requirements in paragraphs 54 and 56, the resulting entity is permitted but not required to present financial statements for periods prior to the amalgamation date (paragraphs AG64–AG65 provide related application guidance). Where a resulting entity elects to present financial statements for periods prior to the amalgamation date, it shall disclose the information required by paragraph 54(g).

Disclosures

53. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.**

54. To meet the objective in paragraph 53, the resulting entity shall disclose the following information for each amalgamation that occurs during the reporting period:

(a) The name and a description of each combining operation.

(b) The amalgamation date.

(c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.

(d) The amounts recognized as of the amalgamation date for each major class of assets and liabilities transferred.

(e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:

(i) To eliminate the effect of transactions between combining operations in accordance with paragraph 22; and

(ii) To conform to the resulting entity's accounting policies in accordance with paragraph 27.

(f) An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognized in accordance with paragraphs 37–38.

(g) If a resulting entity elects to present financial statements for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity shall disclose the following information for each combining operation:

(i) A statement of financial position as at the end of the prior period(s);

(ii) A statement of financial performance for the prior period(s);

(iii) A statement of changes in net assets/equity for the prior period(s);

(iv) A cash flow statement for the prior period(s); and

(v) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The resulting entity shall not restate this information, but shall disclose the information on the same basis as used in the combining operations' financial statements. The resulting entity shall disclose the basis on which this information is presented.

(h) If, at the time the financial statements of the resulting entity are authorized for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:

(i) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analyzed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of IPSAS 1, *Presentation of Financial Statements*. The amounts of expense shall be analyzed using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant, in accordance with paragraph 109 of IPSAS 1.

(ii) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.

(iii) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity is not required to disclose this information where it has elected to present financial statements for periods prior to the amalgamation date as specified in subparagraph (g) above.

55. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.**

56. To meet the objective in paragraph 55, the resulting entity shall disclose the following information:

(a) If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognized in the financial statements for the amalgamation thus have been determined only provisionally:

(i) The reasons why the initial accounting for the amalgamation is incomplete;

(ii) The assets or liabilities for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 43.

(b) If amounts of tax due are forgiven as a result of the terms of the amalgamation (see paragraphs 33–34):

(i) The amount of tax due that was forgiven; and

(ii) Where the resulting entity is the tax authority, details of the adjustment made to tax receivable.

57. If the specific disclosures required by this and other IPSAS do not meet the objectives set out in paragraphs 53 and 55, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.

Accounting for Acquisitions

58. **An acquirer shall account for each acquisition by applying the acquisition method of accounting.**

The Acquisition Method of Accounting

59. Applying the acquisition method of accounting requires:

(a) Identifying the acquirer;

(b) Determining the acquisition date;

(c) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and

(d) Recognizing and measuring goodwill, a gain or a loss from an acquisition.

Identifying the Acquirer

60. **For each acquisition, the party to the combination that gains control of one or more operations shall be identified as the acquirer.**

61. The party to the combination that gains control of one or more operations is identified when determining the classification of the public sector combination in accordance with paragraphs 7, 8 and AG10–AG18.

Determining the Acquisition Date

62. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.**

63. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration and/or acquires the assets and assumes the liabilities of the acquired operation—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquired operation on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

Recognition Principle

64. **As of the acquisition date, the acquirer shall recognize, separately from any goodwill recognized, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 65 and 66.**

Recognition Conditions

65. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* at the acquisition date, and be capable of being measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reporting. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquired operation or to terminate the employment of or relocate an acquired operation's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the acquirer recognizes those costs in its post-combination financial statements in accordance with other IPSAS.

66. In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquired operation (or its former

owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 109–111 to determine which assets acquired or liabilities assumed are part of the exchange for the acquired operation and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable IPSAS.

67. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquired operation had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a patent or a customer relationship, that the acquired operation did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.

68. Paragraphs AG75–AG84 provide guidance on recognizing intangible assets. Paragraphs 76–82B specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

69. **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other IPSAS. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**

70. In some situations, IPSAS provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

    (a) Classification of particular financial assets and liabilities as measured at fair value through surplus or deficit or at amortized cost, or as a financial asset measured at fair value through net assets/equity in accordance with IPSAS 41;

    (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 41; and

    (c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 41 (which is a matter of 'classification' as this Standard uses that term).

71. This Standard provides two exceptions to the principle in paragraph 69:

    (a) Classification of a lease contract in which the acquiree is the lessor as either an operating lease or a finance lease in accordance with IPSAS 43, *Leases*; and

    (b) Classification of a contract as an insurance contract in accordance with the relevant international or national accounting standard dealing with insurance contracts.

    The acquirer shall classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement Principle

72. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values (as defined in IPSAS 46, *Measurement*). Appendix D of IPSAS 46 provides guidance on measuring assets and liabilities at fair value.**

73. For each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

    (a) Fair value; or

    (b) The present ownership instruments' proportionate share in the recognized amounts of the acquired operation's identifiable net assets.

    All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IPSAS.

74. Paragraphs 78–84 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

75. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 76–84 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 76–84, which will result in some items being:

    (a) Recognized either by applying recognition conditions in addition to those in paragraphs 65–66 or by applying the requirements of other IPSAS, with results that differ from applying the recognition principle and conditions.

    (b) Measured at an amount other than their acquisition-date fair values.

Exception to the Recognition Principle

Contingent Liabilities

76. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, defines a contingent liability as:

    (a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

    (b) A present obligation that arises from past events, but is not recognized because:

        (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

        (ii) The amount of the obligation cannot be measured with sufficient reliability.

77. The requirements in IPSAS 19 do not apply in determining which contingent liabilities to recognize as of the acquisition date. Instead, the acquirer shall recognize as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred if it is a present obligation that arises from past events and its fair value can be measured reliably[1]. Therefore, contrary to IPSAS 19, the acquirer recognizes a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 115 provides guidance on the subsequent accounting for contingent liabilities.

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

78. Acquisitions by a public sector entity may result in a tax authority forgiving amounts of tax due as part of the terms of the acquisition. The acquirer shall not recognize any taxation items that are forgiven as a result of the terms of the acquisition (paragraphs AG85–AG87 provide related application guidance).

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with IPSAS 47.

Employee Benefits

80. The acquirer shall recognize and measure a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with IPSAS 39.

Indemnification Assets

81. The seller in an acquisition may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognize the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph AG88 provides related application guidance).

82. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognized at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset shall be recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 116 provides guidance on the subsequent accounting for an indemnification asset.

Leases in Which the Acquiree is the Lessee

82A. The acquirer shall recognize right-of-use assets and lease liabilities for leases identified in accordance with IPSAS 43 in which the acquiree is the lessee. The acquirer is not required to recognize right-of-use assets and lease liabilities for:

(a) Leases for which the lease term (as defined in IPSAS 43) ends within 12 months of the acquisition date; or

(b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9 of IPSAS 43).

82B. The acquirer shall measure the lease liability at the present value of the remaining lease payments (as defined in IPSAS 43) as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability, adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

Exceptions to the Measurement Principle

Reacquired Rights

83. The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Paragraphs AG79–AG80 provide related application guidance.

Share-Based Payment Transactions

84. The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquired operation or the replacement of an acquired operation's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the relevant international or national accounting standard dealing with share-based payments.

Assets Held for Sale

84A. The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* at fair value less costs to sell in accordance with paragraphs 22-26 of that Standard.

Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase

85. **The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below, subject to the requirements of paragraph 86:**

(a) **The aggregate of:**

(i) **The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph 95);**

(ii) **The amount of any non-controlling interest in the acquired operation measured in accordance with this Standard; and**

(iii) **In an acquisition achieved in stages (see paragraphs 99–100), the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.**

(b) **The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.**

86. **The acquirer shall recognize goodwill only to the extent that the acquisition will result in:**

(a) **The generation of cash inflows (such as the acquisition of a cash-generating operation); and/or**

(b) **A reduction in the net cash outflows of the acquirer.**

An acquirer shall recognize any further excess of (a) over (b) in paragraph 85 above as a loss in surplus or deficit. Paragraph AG93 provides related application guidance.

87. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity

interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred (paragraph 85(a)(i)). Paragraph AG94 provides related application guidance.

Bargain Purchases

88. Occasionally in a public sector combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 85(b) exceeds the aggregate of the amounts specified in paragraph 85(a). If that excess remains after applying the requirements in paragraph 90, the acquirer shall recognize the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.

89. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 76–84 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.

90. Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Standard requires to be recognized at the acquisition date for all of the following:

    (a) The identifiable assets acquired and liabilities assumed;

    (b) The non-controlling interest in the acquired operation, if any;

    (c) For an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; and

    (d) The consideration transferred.

    The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

91. In the public sector, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers consideration that is not approximately equal to the fair value of the acquired operation. Such circumstances include, but are not limited to:

    (a) Compensated seizures of operations or entities; and

    (b) The transfer of an operation to the acquirer by a donor for nominal consideration.

92. Where the economic substance of the public sector combination is that of an acquisition, such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 88–90.

A Non-Exchange Acquisition Without the Transfer of Consideration

93. In the public sector, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

    (a) Uncompensated seizures of operations or entities (also known as forced nationalizations).

    (b) The transfer of an operation to the entity by a donor for no consideration. Such transfers may take the form of a bequest.

    And

(c) The transfer of an operation to the entity where the operation has net liabilities. The entity may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as “bailouts”.

94. Where the economic substance of the public sector combination is that of an acquisition, the acquirer that obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration does not recognize goodwill. The acquirer recognizes a gain or a loss in surplus or deficit in accordance with paragraph 86.

Consideration Transferred

95. The consideration transferred in an acquisition shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired operation and the equity interests issued by the acquirer. (However, any portion of the acquirer’s share-based payment awards exchanged for awards held by the acquired operation’s employees that is included in consideration transferred in the acquisition shall be measured in accordance with paragraph 84 rather than at fair value.) Examples of potential forms of consideration include cash, other assets, an operation or a controlled entity of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

96. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition (for example, because the assets or liabilities were transferred to the acquired operation rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the acquisition.

Contingent Consideration

97. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 95). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.

98. The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as a component of net assets/equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 9 of IPSAS 28. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 117 provides guidance on the subsequent accounting for contingent consideration.

An Acquisition Achieved in Stages

99. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date. For example, on 31 December 20X1, Entity A holds a 35 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.

100. In an acquisition achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognize the resulting gain or loss, if any, in surplus or deficit or in net assets/equity, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquired operation in net assets/equity. If so, the amount that was recognized in net assets/equity shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

100A. When a party to a joint arrangement (as defined in IPSAS 37, *Joint Arrangements*) obtains control of an operation that is a joint operation (as defined in IPSAS 37), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is an acquisition achieved in stages. The acquirer shall therefore apply the requirements for an acquisition achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph 100. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

Additional Guidance for Applying the Acquisition Method Where an Acquisition is Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances in Which no Consideration is Transferred

An Acquisition Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances not Involving the Transfer of Consideration

101. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those public sector combinations. Such circumstances include:

(a) The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.

(b) Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.

(c) The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no quantifiable ownership interests in the acquired operation, either on the acquisition date or previously.

102. In an acquisition achieved by contract alone, the acquirer shall attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognized in accordance with this Standard. In other words, the quantifiable ownership interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the quantifiable ownership interests in the acquired operation are attributed to the non-controlling interest.

Measurement Period

103. **If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if**

known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

104. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for an acquisition. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:

(a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;

(b) The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);

(c) In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and

(d) The resulting goodwill, loss, or gain on a bargain purchase.

105. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value measured at that date is likely to indicate an error in the provisional amount.

106. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquired operation's facilities, part or all of which are covered by the acquired operation's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

107. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.

108. After the measurement period ends, the acquirer shall revise the accounting for an acquisition only to correct an error in accordance with IPSAS 3.

Determining what is Part of the Acquisition Transaction

109. **The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the**

negotiations that is separate from the acquisition. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired and liabilities assumed in the exchange for the acquired operation. Separate transactions shall be accounted for in accordance with the relevant IPSAS.

110. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquired operation (or its former owners) before the acquisition, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

(a) A transaction that in effect settles pre-existing relationships between the acquirer and acquired operation;

(b) A transaction that remunerates employees or former owners of the acquired operation for future services; and

(c) A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs AG99–AG106 provide related application guidance.

Acquisition-Related Costs

111. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IPSAS 28 and IPSAS 41.

Subsequent Measurement and Accounting

112. **In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable IPSAS for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:**

(a) **Reacquired rights;**

(b) **Contingent liabilities recognized as of the acquisition date;**

(c) **Indemnification assets;**

(d) **Contingent consideration; and**

(e) **Income taxes (where not included in the terms of the acquisition).**

Paragraphs AG107–AG108 provide related application guidance.

Reacquired Rights

113. A reacquired right recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where

the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

114. A transfer, concessionary loan or similar benefit, previously received by an acquirer or an acquired operation on the basis of criteria that change as a result of an acquisition, shall be reassessed prospectively in accordance with other IPSAS (paragraphs AG109–AG111 provide related application guidance).

Contingent Liabilities

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:

(a) The amount that would be recognized in accordance with IPSAS 19; and

(b) The amount initially recognized less, if appropriate, the cumulative amount of revenue recognized in accordance with IPSAS 47.

This requirement does not apply to contracts accounted for in accordance with IPSAS 41, *Financial Instruments*.

Indemnification Assets

116. At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability of the indemnification asset. The acquirer shall derecognize the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent Consideration

117. Some changes in the fair value of contingent consideration that the acquirer recognizes after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 103–107. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as a component of net assets/equity shall not be remeasured and its subsequent settlement shall be accounted for within net assets/equity.

(b) Other contingent consideration that:

(i) Is within the scope of IPSAS 41 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit in accordance with IPSAS 41.

(ii) Is not within the scope of IPSAS 41 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit.

Income Taxes (Where not Included in the Terms of the Acquisition)

118. Acquisitions involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the acquisition. The acquirer shall account for the tax forgiven prospectively in accordance with the relevant international or national accounting standard dealing with income taxes.

Disclosures

119. **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:**

(a) **During the current reporting period; or**

(b) **After the end of the reporting period but before the financial statements are authorized for issue.**

120. To meet the objective in paragraph 119, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

(a) The name and a description of the acquired operation.

(b) The acquisition date.

(c) The percentage of voting equity interests or equivalent acquired.

(d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.

(e) A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

(f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

(i) Cash;

(ii) Other tangible or intangible assets, including an operation or controlled entity of the acquirer;

(iii) Liabilities incurred, for example, a liability for contingent consideration; and

(iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(g) For contingent consideration arrangements and indemnification assets:

(i) The amount recognized as of the acquisition date;

(ii) A description of the arrangement and the basis for determining the amount of the payment; and

(iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(h) For acquired receivables:

(i) The fair value of the receivables;

(ii) The gross amounts receivable in accordance with a binding arrangement; and

(iii) The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, leases and any other class of receivables.

(i) The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.

(j) For each contingent liability recognized in accordance with paragraph 77, the information required in paragraph 98 of IPSAS 19. If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:

  (i) The information required by paragraph 100 of IPSAS 19; and

  (ii) The reasons why the liability cannot be measured reliably.

(k) The total amount of goodwill that is expected to be deductible for tax purposes.

(l) For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the acquisition in accordance with paragraph 109:

  (i) A description of each transaction;

  (ii) How the acquirer accounted for each transaction;

  (iii) The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and

  (iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) The disclosure of separately recognized transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of financial performance in which those expenses are recognized. The amount of any issue costs not recognized as an expense and how they were recognized shall also be disclosed.

(n) In an acquisition in which a loss is recognized in surplus or deficit (see paragraph 86):

  (i) The amount of the loss recognized in accordance with paragraph 86 and the line item in the statement of financial performance in which the loss is recognized; and

  (ii) A description of the reasons why the transaction resulted in a loss.

(o) In a bargain purchase (see paragraphs 88–90):

  (i) The amount of any gain recognized in accordance with paragraph 88 and the line item in the statement of financial performance in which the gain is recognized; and

  (ii) A description of the reasons why the transaction resulted in a gain.

(p) For each acquisition in which the acquirer holds less than 100 percent of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:

  (i) The amount of the non-controlling interest in the acquired operation recognized at the acquisition date and the measurement basis for that amount; and

  (ii) For each non-controlling interest in an acquired operation measured at fair value, the measurement technique(s) and significant inputs used to measure that value.

(q) In an acquisition achieved in stages:

(i) The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and

(ii) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition (see paragraph 100) and the line item in the statement of financial performance in which that gain or loss is recognized.

(r) The following information:

(i) The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the acquisition date included in the consolidated statement of financial performance for the reporting period; and

(ii) The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in IPSAS 3.

121. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph 120(e)–(r).

122. If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph 120 unless the initial accounting for the acquisition is incomplete at the time the financial statements are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

123. **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods.**

124. To meet the objective in paragraph 123, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

(a) If the initial accounting for an acquisition is incomplete (see paragraph 103) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the acquisition thus have been determined only provisionally:

(i) The reasons why the initial accounting for the acquisition is incomplete;

(ii) The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 107.

(b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

(i) Any changes in the recognized amounts, including any differences arising upon settlement;

(ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) The measurement techniques and key model inputs used to measure contingent consideration.

(c) For contingent liabilities recognized in an acquisition, the acquirer shall disclose the information required by paragraphs 97 and 98 of IPSAS 19 for each class of provision.

(d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

(i) The gross amount and accumulated impairment losses at the beginning of the reporting period.

(ii) Additional goodwill recognized during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IPSAS 44.

(iii) Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with the relevant international or national accounting standard dealing with income taxes.

(iv) Goodwill included in a disposal group classified as held for sale in accordance with IPSAS 44 and goodwill derecognized during the reporting period without having previously been included in a disposal group classified as held for sale.

(v) Impairment losses recognized during the reporting period in accordance with IPSAS 26, *Impairment of Cash-Generating Assets*. (IPSAS 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

(vi) Net exchange rate differences arising during the reporting period in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*.

(vii) Any other changes in the carrying amount during the reporting period.

(viii) The gross amount and accumulated impairment losses at the end of the reporting period.

(e) The amount and an explanation of any gain or loss recognized in the current reporting period that both:

(i) Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period; and

(ii) Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

And

(f) If amounts of tax due are forgiven as a result of the terms of the acquisition (see paragraphs 78–79):

(i) The amount of tax due that was forgiven; and

(ii) Where the acquirer is the tax authority, details of the adjustment made to tax receivable.

125. If the specific disclosures required by this and other IPSAS do not meet the objectives set out in paragraphs 119 and 123, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Effective Date and Transition

Effective Date

126. **This Standard shall be applied prospectively to public sector combinations for which the amalgamation date or acquisition date is on or after the beginning of the first annual reporting period**

beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies this Standard before January 1, 2019, it shall disclose that fact.

126A. **Paragraphs 25, 45, 70, 111, 115, 117 and AG88 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

126B. **Paragraph 100A was added by *Improvements to IPSAS*, *2018*, issued in October 2018. An entity shall apply this amendment to public sector combinations for which the acquisition date is on or after the beginning of the first annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, 2019, it shall disclose that fact.**

126C. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

126D. **Paragraph 126C was amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted.**

126E. **Paragraphs 68, 71, 120, AG76 and AG89 were amended, paragraphs AG72–AG74 and their related heading were deleted, and paragraphs 82A and 82B and the related heading were added by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

126F. **Paragraph 124 was amended and paragraph 84A and the associated heading were added by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

126G. **Paragraph 72 was amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

126H. **Paragraphs 34, 79, 115, AG58, and AG86 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

126I. **Paragraphs 120(p)(ii), 124(b)(iii), and AG91 are amended, and the subheading above paragraph AG94 is amended by Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

Transition

127. Assets and liabilities that arose from public sector combinations whose acquisition dates or amalgamation dates preceded the application of this Standard shall not be adjusted upon application of this Standard.

128. Contingent consideration balances arising from acquisitions whose acquisition dates preceded the date when an entity first applied this Standard shall not be adjusted upon first application of this Standard. Paragraphs 129–132 shall be applied in the subsequent accounting for those balances. Paragraphs 129–132 shall not apply to the accounting for contingent consideration balances arising from acquisitions with acquisition dates on or after the date when the entity first applied this Standard. In paragraphs 129–132 acquisitions refers exclusively to acquisitions whose acquisition date preceded the application of this Standard.

129. If an acquisition agreement provides for an adjustment to the cost of the acquisition contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the acquisition at the acquisition date if the adjustment is probable and can be measured reliably.

130. An acquisition agreement may allow for adjustments to the cost of the acquisition that are contingent on one or more future events. The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of initially accounting for the acquisition without impairing the reliability of the information, even though some uncertainty exists. If the future events do not occur or the estimate needs to be revised, the cost of the acquisition shall be adjusted accordingly.

131. However, when an acquisition agreement provides for such an adjustment, that adjustment is not included in the cost of the acquisition at the time of initially accounting for the acquisition if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the acquisition.

132. In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation for a reduction in the value of the assets given, equity instruments issued or liabilities incurred or assumed by the acquirer in exchange for control of the acquired operation. This is the case, for example, when the acquirer guarantees the market price of equity or debt instruments issued as part of the cost of the acquisition and is required to issue additional equity or debt instruments to restore the originally determined cost. In such cases, no increase in the cost of the acquisition is recognized. In the case of equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments initially issued. In the case of debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.

133. An entity, such as a mutual entity, that has not yet applied this Standard and had one or more public sector combinations that were accounted for using the purchase method (which involves the amortization of goodwill) shall apply the transition provisions in paragraphs AG114–AG115.

Income taxes

134. For public sector combinations in which the acquisition date or amalgamation date was before this Standard is applied, the acquirer or resulting entity shall apply the requirements of the relevant international or national accounting standard dealing with income taxes prospectively. From the date when this Standard is applied, the acquirer or resulting entity shall recognize any changes required by the relevant international or national accounting standard dealing with income taxes as an adjustment to surplus or deficit (or, if required by the relevant international or national accounting standard dealing with income taxes, outside surplus or deficit).

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 40.

Definitions (see paragraph 5)

AG1. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." A resulting entity is not initially a party to the public sector combination. A resulting entity may have the legal form of a new entity, or may retain the legal identity of one of the combining operations. However, a resulting entity usually has the economic substance of a new entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting entity has the substance of a new entity.

Identifying a Public Sector Combination (see paragraph 6)

AG2. Paragraph 5 of this Standard defines a public sector combination as "the bringing together of separate operations into one public sector entity." The reference to one public sector entity may be to a single entity or to an economic entity. Some public sector reorganizations may involve more than one public sector combination. The circumstances in which a public sector combination might occur include:

(a) By mutual agreement; and

(b) By compulsion (for example by legislation).

AG3. Paragraph 5 of this Standard defines an operation as "an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services."

AG4. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as an operation. For the purposes of this standard, the three elements of an operation are defined as follows:

(a) **Input**: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

(b) **Process**: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

(c) **Output**: The result of inputs and processes applied to those inputs that provide, or have the ability to provide, goods and/or services.

The definitions of an input and an output differ from those in RPG 3, *Reporting Service Performance Information*. This is because RPG 3 focuses on recipients who are external to the entity; an operation may have recipients who are internal to an entity.

AG5. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/or liabilities requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the transferor used in operating that operation if the entity that receives the operation or operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.

AG6. The nature of the elements of an operation varies by sector and by the structure of an entity's operations (activities), including the entity's stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and processes and sometimes only a single output (product). Nearly all operations also have liabilities, but an operation need not have liabilities.

AG7. An integrated set of activities and assets and/or liabilities in the development stage might not have outputs. In these cases, the entity that receives the operation should consider other factors to determine whether the set is an operation. Those factors include, but are not limited to, whether the set:

(a) Has begun planned principal activities;

(b) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;

(c) Is pursuing a plan to produce outputs; and

(d) Will be able to obtain access to service recipients that will receive the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets and/or liabilities in the development stage to qualify as an operation.

AG8. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.

AG9. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

Classification of Public Sector Combinations (see paragraphs 7–14)

Assessment of Control (see paragraphs 7–8)

AG10. Where a party to a public sector combination gains control of one or more operations as a result of that combination, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. If no party to the combination gains control, the combination is classified as an amalgamation. In making this assessment the first step is to determine whether one of the entities that existed prior to the public sector combination has gained control of one or more operations. Because this determination is made by reference to the entities that existed prior to the public sector combination, it differs from the assessment of control made in accordance with IPSAS 35, *Consolidated Financial Statements*, where the assessment of control is made by reference to the entities that exist after a public sector combination has taken place.

AG11. In determining whether one party to a public sector combination gains control of one or more operations as a result of the combination, an entity applies the principles and guidance in IPSAS 35. In applying the principles and guidance, references to "an entity controls" are read as "an entity gains control of" and references to "another entity" are read as "an operation". For example, in determining whether one party to a public sector combination gains control of one or more operations as a result of the combination for the purposes of this Standard, paragraph 20 of IPSAS 35 should be read as follows (amended text is shown in italics):

> Thus, an entity *gains control of an operation* if and only if the entity *gains* all the following:
>
> (a) Power over the operation (see paragraphs 23–29);

(b) Exposure, or rights, to variable benefits from its involvement with the operation (see paragraphs 30–34); and

(c) The ability to use its power over the operation to affect the nature or amount of the benefits from its involvement with the operation (see paragraphs 35–37).

AG12. In applying the principles and guidance in IPSAS 35, an entity has regard to paragraphs AG13–AG18.

AG13. A public sector combination effected primarily by the transfer of consideration (i.e., by transferring cash or other assets or by incurring liabilities) -usually results in one entity gaining control of one or more operations.

AG14. A public sector combination effected primarily by exchanging equity interests usually results in one entity gaining control of one or more operations. Combinations involving an exchange of equity interests usually results in one entity having sufficient voting rights to gain control of one or more operations. This may occur without the entity having a majority of the voting rights where the entity has a large minority voting interest and no other owner or organized group of owners has a significant voting interest.

AG15. A public sector combination involving the issuance of equity interests may give rise to a reverse acquisition (see paragraphs AG66–AG71). An entity considers this possibility in determining whether one party to a public sector combination gains control of operations.

AG16. In a public sector combination involving more than two entities, the party to the public sector combination that initiates the combination (if any) is more likely to gain control of operations than the other parties to the combination.

AG17. In a public sector combination in which a new entity is formed to effect the combination, that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations.

AG18. If the application of this guidance identifies one party to the combination as gaining control of one or more operations, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. An entity considers the guidance in paragraphs 9–14 and AG19–AG50 to determine whether the economic substance of the combination is that of an amalgamation. If the application of the guidance does not identify one party to the combination as gaining control of one or more operations, the combination shall be classified as an amalgamation.

Assessment of the Classification of a Public Sector Combination (see paragraphs 9–14)

AG19. If one party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. In assessing whether the economic substance of the combination is that of an amalgamation, an entity considers the economic substance of the public sector combination and the indicators in paragraphs 12–14. A combination that does not have the economic substance of an amalgamation shall be classified as an acquisition. In making this assessment, an entity considers the following guidance.

Economic Substance (see paragraph 9)

AG20. Usually, an analysis of the indicators in paragraphs 12–13, individually or on combination, will produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation.

AG21. Where consideration of the indicators in paragraphs 12–13 produces inconclusive results or does not provide sufficient evidence to clearly determine the economic substance of the combination, an entity considers the additional matters in paragraph 14.

AG22. The economic substance of an amalgamation is usually that a new entity is formed, irrespective of the legal form of the resulting entity. This applies equally to a combination in which one party to the combination gains control of one or more operations. If the economic substance of a public sector combination is that one of the parties to the combination continues to exist, this may provide evidence that the economic substance of the combination is that of an acquisition. In combinations of operations under common control, the fact that the ultimate controlling entity controls the operations both before and after the combination reduces the significance of this factor.

AG23. An amalgamation involves the integration of the operations that are part of the public sector combination. In other words, an amalgamation does not give rise to a controlling entity/controlled entity relationship between parties to a combination. If, following the combination, any of the operations operate as controlled entities of a party to the combination, this may provide evidence that the economic substance of the combination is that of an acquisition.

AG24. An acquisition is usually a mutual agreement between two or more parties, and usually has commercial substance. However, in the public sector, a party to the combination may be able to impose a public sector combination on the other party to the combination. Where this results in the entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probable that the economic substance of the public sector combination is that of an acquisition. For example, a central government may centralize a service for which it had been providing funding, by requiring local government entities to transfer operations to the central government in order to achieve economies of scale. Where the entity does not gain access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction, it is probable that the economic substance of the public sector combination is that of an amalgamation.

AG25. Where, after consideration of the indicators and the nature of the public sector combination, there is insufficient evidence that the public sector combination has the economic substance of an amalgamation, the combination shall be classified as an acquisition.

Indicators Relating to Consideration (see paragraph 12)

AG26. Amalgamations usually do not involve the payment of consideration to compensate a seller for giving up their entitlement to the net assets of an operation. By contrast, acquisitions usually involve an exchange of consideration between those gaining control of the operations and those losing control of the operations.

AG27. The payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of the public sector combination is an acquisition. In such cases, the combination is classified as an acquisition.

AG28. The payment of consideration that is not intended to compensate the seller for giving up their entitlement to the net assets of an operation, but is, for example, intended to reimburse them for costs incurred in effecting the public sector combination, may provide evidence that the economic substance of the combination is that of an amalgamation.

AG29. Acquisitions may occur without an exchange of consideration, for example where an individual bequeaths an operation to a government entity. Consequently, the absence of consideration does not in itself provide evidence of the economic substance of the public sector combination. In assessing consideration, an entity also considers the reasons why consideration was either paid or not paid.

AG30. Where a public sector combination does not include the payment of consideration, an entity considers the reasons why no consideration has been paid. If the former owner has given up their entitlement to the net assets of an operation, or has had their entitlement extinguished through compulsion (for example, in an uncompensated seizure), there may be evidence that the combination is an acquisition.

AG31. Where a public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of an operation, the economic substance of the combination will usually be that of an amalgamation. An acquisition involves a transfer of an operation from its former owner to its new owner. If there is no party with an entitlement to the net assets of an operation, there is no former owner, and the combination is usually not an acquisition. This scenario will only arise where a complete entity is being transferred; where an individual operation is being transferred, the entity transferring the operation will be the former owner and will be entitled to the net assets of the operation. Examples of entities where there will be no former owner(s) include municipalities and some not-for-profit organizations.

Indicators Relating to the Decision-Making Process (see paragraph 13)

AG32. An acquisition usually requires the voluntary participation of all the parties to the combination. Consequently, where a public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the economic substance of the combination is an amalgamation.

AG33. In other circumstances, the parties to the public sector combination will be able to influence the terms of the combination to different degrees even when the combination is imposed by a third party. As the degree of influence the parties to the combination have increases, particularly the influence of the party that gains control of one or more operations, it becomes less likely that a conclusion regarding the economic substance of the combination can be drawn.

AG34. For example, the parties to the combination may be directed to combine by a regulator, but the regulator allows the parties to determine the terms of the combination. The economic substance of this public sector combination is likely to be determined by the terms of the combination agreed by the parties rather than by the decision of the regulator that the parties must combine.

AG35. Where the party to the public sector combination that gains control of one or more operations is able to impose the combination on the other party, this does not provide evidence that the economic substance of the combination is that of an amalgamation. For example, a government may decide to nationalize a private sector entity, contrary to the wishes of the shareholders. The fact that the government (a party to the combination) is able to impose the nationalization, for example through legislation, does not provide evidence that the economic substance of the combination is an amalgamation. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this provides evidence that the economic substance of the combination is that of an acquisition.

AG36. Where a public sector combination is subject to approval by each party's citizens through referenda, this may provide evidence that the economic substance of the combination is that of an amalgamation. Such a requirement provides evidence that the parties to the combination do not have freedom to voluntarily effect the combination and that the ultimate decision as to whether the combination takes place is taken by third parties. However, it is possible for citizens to approve, through referenda, a combination whose terms are those of an acquisition.

AG37. Where a public sector combination takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. Public sector combinations under common control are often instigated by and on behalf of the controlling entity, and the controlling entity will often determine the terms of the combination. For example, a government may decide to combine two ministries for administrative or political reasons, and specify the terms of the combination. In

such circumstances, the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. This provides evidence that the economic substance of the combination is an amalgamation.

AG38. In some circumstances, two operations under common control may agree to combine voluntarily. However, this decision will usually be subject to the approval of the controlling entity, whether this approval is given explicitly or not. Where the approval of the controlling entity is required, this provides evidence that the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. Consequently, this provides evidence that the economic substance of the combination is that of an amalgamation.

AG39. Only where there is no evidence that the controlling entity is involved in the public sector combination, either by instigating the combination, determining the terms of the combination, or approving (whether explicitly or implicitly) the combination, will there be no evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the entity considers all other factors in determining the classification of the public sector combination.

Additional Matters to be Considered Where the Indicators Relating to Consideration and the Decision-Making Process do not Provide Sufficient Evidence to Determine Whether the Economic Substance of the Combination is that of an Amalgamation (see paragraph 14)

AG40. Where an analysis of the indicators relating to consideration and the decision-making process produces inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification and resulting accounting treatment would provide information that:

(a) Best meets the objectives of financial reporting; and

(b) Best satisfies the qualitative characteristics (QCs).

AG41. An analysis of the indicators relating to consideration and the decision-making process will usually produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. This is because the indicators relating to consideration and the decision-making process will provide evidence of the economic substance of a public sector combination in all but exceptional circumstances. As a result, where it is clear that the indicators have been met, the additional matters set out in paragraph 14 are not considered in determining the classification.

AG42. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification would provide information that best meets the objectives of financial reporting. The determination of whether a public sector combination is classified as an acquisition or an amalgamation can significantly affect the financial reporting of the combination. Consequently, it is important to consider the information each method provides and the principal users of that information.

AG43. The modified pooling of interests method views the combination from the perspective of each of the combining operations and their owners or constituents who are uniting their interests in the resulting entity. Using the modified pooling of interests method of accounting, the combining operations measure the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. Such information may assist users in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods. However, this comparability may be reduced where adjustments to achieve consistent accounting policies are required. It does not include

information about the market's expectation of the value of the future cash flows associated with assets and liabilities, other than assets and liabilities recorded at fair value prior to the date of the amalgamation.

AG44. The acquisition method views a combination from the perspective of the acquirer—the entity that gains control of the other operations. The acquirer purchases or otherwise gains control over net assets and recognizes in its financial statements the assets acquired and liabilities assumed, including those not previously recognized by the acquired operation. Such information assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities. While it revalues the assets and liabilities of the acquired operation, it does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Further, depending on the relationship between the amounts in paragraph 85(a) and 85(b) and other factors (for example, a bargain purchase), it may result in the immediate recognition of a gain or loss through surplus or deficit.

AG45. The information provided by each approach is summarized in the following table.

	Amalgamation	**Acquisition**
Perspective	Perspective of each of the combining operations and their owners or constituents.	Perspective of the acquirer.
User information	Assists users of the financial statements in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.	Assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments.
Basis of reported values	Measures the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.	Revalues the identifiable assets and liabilities of the acquired operation but does not affect the valuation of assets and liabilities held by the acquirer. Includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities.
Ability to compare to operating results of prior periods	May facilitate the comparison of operating results with prior periods. Comparability may be reduced where adjustments to achieve consistent accounting policies are required.	Difficult to compare operating results with prior periods.

AG46. Consideration of which classification would provide information that best meets the objectives of financial reporting provides evidence of the economic substance of the public sector combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to -determine whether the economic substance of the combination is that of an amalgamation.

AG47. Where an analysis of the indicators relating to consideration and the -decision-making process provides inconclusive results or does not provide sufficient evidence to determine the classification of the combination, an entity considers which classification would provide information that best satisfies the QCs

of relevance, faithful representation, understandability, timeliness, comparability and verifiability. In making this assessment, an entity also considers the constraints on information included in general purpose financial reports, which are materiality, cost-benefit and the balance between the QCs.

AG48. When considering the classification of a public sector combination, some QCs will be more significant than others. For example, timeliness will be less significant than understandability when considering whether a combination is an amalgamation or an acquisition.

AG49. An entity considers the QCs and the constraints on information from the perspective of the users of the financial statements. This will include consideration of the following questions; this list is not exhaustive.

(a) Which classification most faithfully represents the economic substance of the public sector combination, which may be different from its legal form? Does that classification faithfully represent an entity's financial performance and financial position?

(b) Which classification will help users understand the nature of the public sector combination? For example, in an amalgamation, any difference between the total recognized assets and total recognized liabilities is recognized in net assets/equity, whereas in an acquisition, the acquirer recognizes goodwill, or a gain or loss in the reporting period. Which approach best helps the user to understand the nature of the combination?

(c) Users' needs are best served when the information provided in respect of a transaction is comparable. How are similar public sector combinations classified?

AG50. Consideration of which classification would provide information that best meets the QCs provides evidence of the economic substance of the public sector combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

Accounting for Amalgamations

Eliminating Transactions Between the Combining Operations (see paragraph 22)

AG51. A resulting entity eliminates the effects of all transactions between the combining operations. For many transactions, elimination will take place automatically. For example, one combining operation provided services for a fee to another combining operation prior to the amalgamation date. The revenue of the combining operation that provided the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The expense of the combining operation receiving the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The resulting entity will recognize both amounts in net assets/equity.

AG52. Elimination may not take place automatically where one combining operation has recognized an asset, and another combining operation has recognized a corresponding liability as a result of the transaction between two combining operations. The resulting entity eliminates both the asset and the liability, and recognizes any difference between the asset and liability in net assets/equity.

Carrying Amounts to be Used (see paragraphs 26–27)

AG53. Where a combining operation has previously been acquired in an acquisition (i.e., it was previously an acquired operation), the carrying amounts of the combining operation's assets and liabilities in its separate financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements. In an acquisition, the controlling entity would measure the combining operation's assets and liabilities at their fair value. However, where the combining operation (i.e., the previously acquired operation) continues to prepare separate financial statements, it would use its previous carrying amounts.

The fair value measurements in the financial statements of the controlling entity are not pushed down to the combining operation.

AG54. To meet the requirements in paragraphs 26–27, a resulting entity measures the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The resulting entity does not measure the assets and liabilities at the carrying amounts in the financial statements of the controlling entity.

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation (see paragraph 32)

AG55. As part of an amalgamation, a resulting entity may receive a license or similar right that had previously been granted by one combining operation to another combining operation to use one or more of the grantor's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. The resulting entity recognizes this license or similar right as an identifiable intangible asset, and measures the intangible asset at its carrying amount in the financial statements of the combining operation as of the amalgamation date. Because the license or similar right has previously been part of a binding arrangement, the license satisfies both the separability and binding arrangement criteria in IPSAS 31, *Intangible Assets*. Paragraph 47 provides guidance on the subsequent accounting for a license or similar right previously granted by one combining operation to another combining operation.

AG56. The resulting entity assesses both the license or similar right previously granted by one combining operation to another combining operation, and the underlying asset (where the underlying asset is a recognized asset) for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*, at the amalgamation date.

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34)

AG57. The resulting entity shall not recognize any amounts in respect of a combining operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the amalgamation. Where tax forgiveness occurs subsequent to an amalgamation, the resulting entity applies the requirements in paragraph 49. In applying the modified pooling of interests method of accounting, the resulting entity shall treat those amounts included in the terms of the amalgamation as having been derecognized prior to the amalgamation. The resulting entity shall account for a combining operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with IPSAS 47, *Revenue*.

Recognition of Goodwill (see paragraph 36)

AG59. Amalgamations do not give rise to goodwill, and consequently a resulting entity does not recognize goodwill arising from an amalgamation. Paragraphs 37–38 specify the treatment of the net assets/equity arising as a result of the amalgamation.

AG60. Where a combining operation has previously recognized goodwill as a result of a previous acquisition, the resulting entity recognizes this goodwill in its opening statement of financial position.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation (see paragraph 48)

AG61. Prior to an amalgamation taking place, a combining operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the average household income is below a threshold. An amalgamation of two municipalities may involve one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the amalgamation, the average household income of the new, combined municipality will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.

AG62. The resulting entity shall not account for any revisions to the grant amount as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other IPSAS.

AG63. Similar circumstances may arise in respect of concessionary loans and other benefits. The resulting entity shall not account for any revisions to those transactions as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other IPSAS.

Amalgamations Occurring during a Reporting Period (see paragraphs 50–52)

AG64. To meet the requirements of paragraphs 50–52, the resulting entity is not required to present financial statements for periods prior to the amalgamation date, although it may elect to do so by making the disclosures specified in paragraph 54(g). Where the resulting entity does not elect to present financial statements for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining -operations prior to the amalgamation by:

(a) Where financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), directing the users of its financial statements to the financial statements issued on behalf of the combining operations.

(b) Where no financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), making the disclosures required by paragraph 54(h).

AG65. To satisfy the requirements of a regulator, it may be necessary for the combining operations and/or the resulting entity to present or disclose information in addition to that required by this Standard.

Accounting for Acquisitions

Reverse Acquisitions

AG66. A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquired operation for accounting purposes on the basis of the guidance in paragraphs AG10–AG18. The entity whose equity interests are acquired (the legal acquired operation) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when a public sector entity wants to become a listed entity but does not want to register its equity shares. To accomplish that, the public sector entity will arrange for a listed entity to acquire its equity interests in exchange for the equity interests of the listed entity. In this example, the listed entity is the legal acquirer because it issued its equity interests, and the public sector entity is the legal acquired operation because its equity interests were acquired. However, application of the guidance in paragraphs AG10–AG18 results in identifying:

(a) The listed entity as the acquired operation for accounting purposes (the accounting acquired operation)–i.e., the listed entity does not gain control of one or more operations; and

(b) The public sector entity as the acquirer for accounting purposes (the accounting acquirer)–i.e., the public sector entity does gain control of one or more operations.

The accounting acquired operation must meet the definition of an operation for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this Standard, including the requirement to recognize goodwill, apply.

Measuring the Consideration Transferred

AG67. In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquired operation. Instead, the accounting acquired operation usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquired operation is based on the number of equity interests the legal controlled entity would have had to issue to give the owners of the legal controlling entity the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquired operation.

Preparation and Presentation of Consolidated Financial Statements

AG68. Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal controlling entity (accounting acquired operation) but described in the notes as a continuation of the financial statements of the legal controlled entity (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquired operation. That adjustment is required to reflect the capital of the legal controlling entity (the accounting acquired operation). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal controlling entity (accounting acquired operation).

AG69. Because the consolidated financial statements represent the continuation of the financial statements of the legal controlled entity except for its capital structure, the consolidated financial statements reflect:

(a) The assets and liabilities of the legal controlled entity (the accounting acquirer) recognized and measured at their pre-combination carrying amounts.

(b) The assets and liabilities of the legal controlling entity (the accounting acquired operation) recognized and measured in accordance with this Standard.

(c) The accumulated surplus or deficit and other equity balances of the legal controlled entity (accounting acquirer) before the acquisition.

(d) The amount recognized as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal controlled entity (the accounting acquirer) outstanding immediately before the acquisition to the fair value of the legal controlling entity (accounting acquired operation). However, the equity structure (i.e., the number and type of equity interests issued) reflects the equity structure of the legal controlling entity (the accounting acquired operation), including the equity interests the legal controlling entity issued to effect the acquisition. Accordingly, the equity structure of the legal controlled entity (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal controlling entity (the accounting acquired operation) issued in the reverse acquisition.

(e) The non-controlling interest's proportionate share of the legal controlled entity's (accounting acquirer's) pre-acquisition carrying amounts of retained earnings and other equity interests as discussed in paragraphs AG70 and AG71.

Non-Controlling Interest

AG70. In a reverse acquisition, some of the owners of the legal acquired operation (the accounting acquirer) might not exchange their equity interests for equity interests of the legal controlling entity (the accounting acquired operation). Those owners are treated as a non-controlling interest in the consolidated -financial statements after the reverse acquisition. That is because the owners of the legal acquired operation that do not exchange their equity interests for equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquired operation—not in the results and net -assets of the combined entity. Conversely, even though the legal acquirer is the -acquired operation for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.

AG71. The assets and liabilities of the legal acquired operation are measured and recognized in the consolidated financial statements at their pre-combination carrying amounts (see paragraph AG69(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-acquisition carrying amounts of the legal acquired operation's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

Recognizing Particular Assets Acquired and Liabilities Assumed in an Acquisition (see paragraphs 64–68)

AG72. [Deleted]

AG73. [Deleted]

AG74. [Deleted]

Intangible Assets

AG75. The acquirer shall recognize, separately from goodwill, the identifiable intangible assets acquired in an acquisition. An intangible asset is identifiable if it meets either the separability criterion or the binding arrangement criterion.

AG76. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:

(a) [Deleted]

(b) An acquired operation owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

AG77. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquired operation and sold, transferred, licensed, rented or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability

criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licensed and thus meet the separability criterion. Even if an acquired operation believes its lists of users of a service have characteristics different from other lists of users of a service, the fact that lists of users of a service are frequently licensed generally means that the acquired list of users of a service meets the separability criterion. However, a list of users of a service acquired in an -acquisition would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.

AG78. An intangible asset that is not individually separable from the acquired operation or combined entity meets the separability criterion if it is separable in combination with a related binding arrangement, identifiable asset or -liability. For example, an acquired operation owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquired operation or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired Rights

AG79. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquired operation to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from goodwill or a gain from a bargain purchase. Paragraph 83 provides guidance on measuring a reacquired right and paragraph 113 provides guidance on the subsequent accounting for a reacquired right.

AG80. If the terms of the binding arrangement giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph AG100 provides guidance for measuring that settlement gain or loss.

Assembled Workforce and Other Items that are not Identifiable

AG81. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquired operation bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill or a gain from a bargain purchase, any value attributed to it is subsumed into goodwill or a gain from a bargain purchase.

AG82. The acquirer also subsumes into goodwill or a gain from a bargain purchase any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquired operation is negotiating with prospective new customers at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill or a gain from a bargain purchase. The acquirer should not subsequently reclassify the value of those binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances

surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.

AG83. After initial recognition, an acquirer accounts for intangible assets acquired in an acquisition in accordance with the provisions of IPSAS 31. However, as described in paragraph 6 of IPSAS 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other IPSAS.

AG84. The identifiability criteria determine whether an intangible asset is recognized separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 83, which establishes an exception to the fair value measurement principle for reacquired rights recognized in an acquisition.) Paragraphs 39D and 39E of IPSAS 31 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

AG85. The acquirer shall not recognize any amounts in respect of an acquired operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the acquisition. Where tax forgiveness occurs subsequent to an acquisition, the resulting entity applies the requirements in paragraph 118. The acquirer shall account for an acquired operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with IPSAS 47.

AG87. If, as a consequence of the terms of an acquisition, a tax authority forgives an amount of the acquirer's tax due, the acquirer shall derecognize those amounts in accordance with the relevant international or national accounting standard dealing with income taxes.

Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)

Assets with Uncertain Cash Flows (Valuation Allowances)

AG88. The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognize a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date or a loss allowance for expected credit losses.

Assets Subject to Operating Leases in Which the Acquired Operation is the Lessor

AG89. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer shall take into account the terms of the lease. The acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms.

Assets that the Acquirer Intends not to Use or to Use in a Way that is Different from the Way Other Market Participants Would Use them

AG90. To protect its competitive position, or for security or other reasons, the acquirer may intend not to use an acquired non-financial asset actively, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer shall measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

Non-Controlling Interest in an Acquired Operation

AG91. This Standard allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other measurement techniques.

AG92. The fair values of the acquirer's interest in the acquired operation and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquired operation or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

Measuring Goodwill or a Gain from a Bargain Purchase in an Acquisition (see paragraphs 85–98)

Relationship Between Goodwill and Cash Flows (see paragraph 86)

AG93. The acquirer shall recognize goodwill only to the extent that the acquirer estimates there will be favorable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer shall not recognize goodwill related to service potential other than cash flows.

Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using Measurement Techniques (see paragraph 87)

AG94. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value of the consideration transferred to measure goodwill, a loss or a gain on a bargain purchase (see paragraphs 85–87).

Special Considerations in Applying the Acquisition Method to Combinations of -Mutual Entities (Application of Paragraph 87)

AG95. When two mutual entities combine, the fair value of the equity or member interests in the acquired operation (or the fair value of the acquired operation) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph 87 requires the acquirer to determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the acquirer's equity interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognize the acquired operation's net assets as a direct addition to capital or equity in its statement of financial position, not as an addition to accumulated surplus or deficit, which is consistent with the way in which other types of entities apply the acquisition method.

AG96. Although they are similar in many ways to other entities, mutual entities have distinct characteristics that arise primarily because their members are both customers and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and

services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.

AG97. A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, a present value technique may be used to measure the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

Determining what is Part of the Acquisition Transaction (see paragraphs 109–111)

AG98. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquired operation or whether the transaction is separate from the acquisition:

(a) The reasons for the transaction. Understanding the reasons why the parties to the acquisition (the acquirer and the acquired operation and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquired operation or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquired operation. Accordingly, the acquirer would account for that portion separately from the acquisition.

(b) Who initiated the transaction. Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquired operation or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquired operation or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the acquisition transaction.

(c) The timing of the transaction. The timing of the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction between the acquirer and the acquired operation that takes place during the negotiations of the terms of an acquisition may have been entered into in contemplation of the acquisition to provide future economic benefits to the acquirer or the combined entity. If so, the acquired operation or its former owners before the acquisition are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

Effective Settlement of a Pre-Existing Relationship between the Acquirer and Acquired Operation in an Acquisition (see paragraph 110(a))

AG99. The acquirer and acquired operation may have a relationship that existed before they contemplated the acquisition, referred to here as a ‘pre-existing relationship’. A pre-existing relationship between the acquirer and acquired operation may arise from a binding arrangement (for example, vendor and customer or licensor and licensee) or may arise outside of a binding arrangement (for example, plaintiff and defendant).

AG100. If the acquisition in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:

(a) For a pre-existing relationship arising outside of a binding arrangement (such as a lawsuit), fair value.

(b) For a pre-existing relationship arising from a binding arrangement, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favorable or unfavorable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavorable binding arrangement is a binding arrangement that is unfavorable in terms of current market terms. It is not necessarily an onerous binding arrangement in which the unavoidable costs of meeting the obligations under the binding arrangement exceed the economic benefits expected to be received under it.)

(ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavorable.

If (ii) is less than (i), the difference is included as part of the acquisition accounting.

The amount of gain or loss recognized may depend in part on whether the acquirer had previously recognized a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

AG101. A pre-existing relationship may be a binding arrangement that the acquirer recognizes as a reacquired right. If the binding arrangement includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the acquisition, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph AG100.

Arrangements for Contingent Payments to Employees or Selling Shareholders (see paragraph 110(b))

AG102. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG103. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquired operation or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

(a) Continuing employment. The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.

(b) Duration of continuing employment. If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.

(c) Level of remuneration. Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.

(d) Incremental payments to employees. If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees

of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.

(e) Number of shares owned. The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares in the acquired operation continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if selling shareholders who continue as key employees owned only a small number of shares of the acquired operation and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.

(f) Linkage to the valuation. If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquired operation and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.

(g) Formula for determining consideration. The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquired operation. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.

(h) Other agreements and issues. The terms of other arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquired operation. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease arrangement are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its post-combination financial statements. In contrast, if the lease arrangement specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

Acquirer Share-Based Payment Awards Exchanged for Awards Held by the Acquired Operation's Employees (see paragraph 110(b))

AG104. An acquirer may exchange its share-based payment awards for awards held by employees of the acquired operation. The acquirer shall account for -exchanges of share options or other share-based payment awards in conjunction with an acquisition in accordance with the relevant international or -national accounting standard dealing with share-based payments.

AG105. In situations in which acquired operation awards would expire as a consequence of an acquisition and if the acquirer replaces those awards when it is not obliged to do so, the acquirer shall recognize any costs as remuneration cost in the post-combination financial statements in accordance with the relevant international

or national accounting standard dealing with share-based payments. The cost of those awards shall not be included in measuring the consideration transferred in the acquisition.

Equity-Settled Share-Based Payment Transactions of the Acquired Operation

AG106. The acquired operation may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquired operation share-based payment transactions are part of the non-controlling interest in the acquired operation. If unvested, they are measured as if the acquisition date were the grant date. Share-based payment transactions are measured in accordance with the relevant international or national accounting standard dealing with share-based payments.

Subsequent Measurement and Accounting (see paragraph 112)

AG107. Examples of other IPSAS that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:

(a) IPSAS 31 prescribes the accounting for identifiable intangible assets acquired in an acquisition. The acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment losses. IPSAS 26 prescribes the accounting for impairment losses.

(b) IPSAS 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

AG108. An acquirer should refer to the relevant international or national accounting standards for guidance on subsequently measuring and accounting for insurance contracts, income taxes and share-based payments.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition (see paragraph 114)

AG109. Prior to an acquisition taking place, an acquirer or an acquired operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the municipality's revenue per head of population is below a threshold. An acquisition by a municipality of a cash-generating operation may increase the revenue per head of population of the municipality so that it is above the threshold. This may cause the government to review the grant.

AG110. The acquirer shall not account for any revisions to the grant amount as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other IPSAS.

AG111. Similar circumstances may arise in respect of concessionary loans and other benefits. The acquirer shall not account for any revisions to those transactions as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other IPSAS.

Acquisitions Occurring during a Reporting Period

AG112. The resulting entity meets the needs of the users of its financial statements for information about the acquired operations prior to the acquisition by making the disclosures in paragraph 120(r).

AG113. To satisfy the requirements of a regulator, it may be necessary for the acquirer to present or disclose information in addition to that required by this Standard.

Transitional Provisions for Public Sector Combinations Involving Only Mutual Entities or by Contract Alone (see paragraph 133)

AG114. Paragraph 126 provides that this Standard applies prospectively to public sector combinations for which the acquisition date or amalgamation date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

AG115. The requirement to apply this Standard prospectively has the following effect for a public sector combination involving only mutual entities or by contract alone if the acquisition date or amalgamation date for that public sector combination is before the application of this Standard:

(a) Classification. An entity shall continue to classify the prior public sector combination in accordance with the entity's previous accounting policies for such combinations.

(b) Previously recognized goodwill. At the beginning of the first annual period in which this Standard is applied, the carrying amount of goodwill arising from the prior public sector combination shall be its carrying amount at that date in accordance with the entity's previous accounting policies. In determining that amount, the entity shall eliminate the carrying amount of any accumulated amortization of that goodwill and the corresponding decrease in goodwill. No other adjustments shall be made to the carrying amount of goodwill.

(c) Goodwill previously recognized as a deduction from equity. The entity's previous accounting policies may have resulted in goodwill arising from the prior public sector combination being recognized as a deduction from equity. In that situation the entity shall not recognize that goodwill as an asset at the beginning of the first annual period in which this Standard is applied. Furthermore, the entity shall not recognize in surplus or deficit any part of that goodwill when it disposes of all or part of the operation to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

(d) Subsequent accounting for goodwill. From the beginning of the first annual period in which this Standard is applied, an entity shall discontinue amortizing goodwill arising from the prior public sector combination and shall test goodwill for impairment in accordance with IPSAS 26.

(e) Previously recognized negative goodwill. An entity that accounted for the prior public sector combination by applying the purchase method may have recognized a deferred credit for an excess of its interest in the net fair value of the acquired operation's identifiable assets and liabilities over the cost of that interest (sometimes called negative goodwill). If so, the entity shall derecognize the carrying amount of that deferred credit at the beginning of the first annual period in which this Standard is applied with a corresponding adjustment to the opening balance of accumulated surplus or deficit at that date.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 40.

Objective (paragraph 1)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with public sector combinations, public sector entities are directed, in IPSAS 1, *Presentation of Financial Statements,* to look to other international or national accounting standards. In the case of public sector combinations, they may look to International Financial Reporting Standard (IFRS®) 3, *Business Combinations*. However, IFRS 3 requires all business combinations to be accounted for using acquisition accounting. In developing IFRS 3, the International Accounting Standards Board (IASB®) came to the conclusion that 'true mergers' or 'mergers of equals' in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. The IASB also observed that respondents and other constituents were unable to suggest an unambiguous and non-arbitrary boundary for distinguishing true mergers or mergers of equals from other business combinations and concluded that developing such an operational boundary would not be feasible (see IFRS 3, BC35). Consequently, the IASB decided that separate accounting requirements for such combinations was not necessary.

BC2. Many consider that in the public sector, mergers or amalgamations are the most common form of combination. As a result, public sector entities may not apply IFRS Standards when accounting for public sector combinations. This means that there may not be consistent or appropriate reporting of such combinations in general purpose financial statements (GPFSs). Consequently, users may not be able to obtain the information needed to identify the type of public sector combination and evaluate its nature and financial effect. The IPSASB believes this Standard will promote consistency and comparability in how public sector combinations are reported by public sector entities.

Process

BC3. In developing this Standard the IPSASB had regard to the discussion of control in IPSAS 35, *Consolidated Financial Statements*. The IPSASB considered how control, as defined in IPSAS 35, should influence the classification of public sector combinations in this Standard. The IPSASB also had regard to the guidance on combinations in the *Government Finance Statistics Manual* 2014 (GFSM 2014) with the aim of avoiding unnecessary differences. The IPSASB also considered IFRS 3 and guidance on combinations developed by national standard setters.

Alignment with Government Finance Statistics (GFS)

BC4. In developing this Standard, the IPSASB had regard to the treatment of public sector combinations in Government Finance Statistics (GFS):

GFS guidelines make a distinction between an acquisition and an amalgamation based on the principle that with an acquisition a transaction occurs, while with an amalgamation just a reclassification of units may occur.

A transaction will occur where a "market unit" is nationalized or privatized (that is, entering government control or leaving it), and the amounts are recorded in GFS as transactions in equity that correspond to the observed transaction price. Any changes in valuation–for example, between the opening balance of a government equity stake and the eventual transaction price–are recorded as revaluation effects, with no impact on government net lending/net borrowing. For amalgamations, the main impact is on the sectorization of the "institutional units".

Where the units before amalgamation belonged to the same sector or subsector of general government, the amalgamation will have no impact on the data for that sector or subsector. For example, an amalgamation

of two local governments, where both are already classified to the local government sector, would not change results for the local government sector.

However, in cases where a unit in one subsector is being amalgamated with a unit in another subsector, the amalgamated units will be removed from the sector they belonged to and be added to the sector of the new amalgamated unit, through a reclassification of the unit (recorded in GFS as an "other volume change in assets and liabilities"). For example, if a local government unit is amalgamated with a state government, the unit will be reclassified from the local government subsector to the state government subsector.

BC5. The IPSASB agreed the approach in GFS was not an appropriate basis for classifying public sector combinations in this Standard, for the following reasons:

(a) The approach in GFS is based on a number of concepts that have no equivalent in IPSAS, for example:

(i) The classification of institutional units into sectors based on their economic nature; and

(ii) The distinction between market producers and nonmarket producers.

(b) Amalgamations in GFS can arise from a reclassification of units without a transaction being recorded, which is inconsistent with the approach in IPSAS; and

(c) Public sector combinations within the same sector or subsector of general government have no impact on the data in GFS, whereas IPSAS would require the changes to individual entities to be accounted for.

BC6. In coming to this conclusion the IPSASB noted that the different approaches in GFS and IPSAS may lead to similar accounting, for example:

(a) Nationalizations are likely to be recorded as acquisitions under both approaches; and

(b) The modified pooling of interests method of accounting will produce similar accounting to the GFS reclassification approach where the combining operations had previously adopted the same accounting policies.

Scope (paragraphs 2–4)

BC7. The IPSASB initially considered developing two Standards on public sector combinations, covering:

(a) Entity combinations arising from exchange transactions—a limited convergence project with IFRS 3; and

(b) Entity combinations arising from non-exchange transactions—a public sector-specific project.

BC8. In May 2009, the IPSASB issued Exposure Draft (ED) 41, *Entity Combinations from Exchange Transactions*, which was the limited convergence project with IFRS 3. Following the consultation process on ED 41, the IPSASB decided not to continue with this approach for the following reasons:

(a) IFRS 3 includes bargain purchases within its scope. It could be argued, therefore, that IFRS 3 also applies to at least some non-exchange entity combinations. The IPSASB acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations.

(b) It was not clear whether combinations where no party gains control of the other parties to the combination would be classified as entity combinations arising from exchange transactions, and therefore required to be accounted for as an acquisition in accordance with ED 41.

BC9. Subsequently, the IPSASB decided to develop a single standard dealing with all public sector combinations. This wider scope was included in the Consultation Paper (CP), *Public Sector Combinations*, issued in June 2012. Respondents to the CP supported this wider scope.

BC10. The IPSASB, therefore, decided that this Standard should apply to all public sector combinations, with only limited exceptions. This Standard defines a public sector combination as the bringing together of separate operations into one public sector entity. This definition refers to the bringing together of operations rather than entities, as public sector combinations, in common with business combinations, may involve part of an entity that can be managed separately from the rest of the entity.

BC11. In coming to a decision on the scope of this Standard, the IPSASB agreed to include public sector combinations under common control. While these are excluded from the scope of IFRS 3, the IPSASB considered it important that this Standard included all public sector combinations within its scope.

Scope Exclusions

BC12. The IPSASB agreed that this Standard should not apply to the formation of joint arrangements or joint ventures. The IPSASB stated in the CP that:

> "The concept underlying the formation of a joint venture differs from other combinations, in that the formation arises from separate entities deciding to share control, i.e., they have joint control of the operations that form the joint venture. The concept of joint control may give rise to issues that affect how the joint venture itself should account for its formation."

BC13. In developing this Standard, the IPSASB discussed whether this rationale was still valid given that this Standard takes a different approach to classifying public sector combinations. The IPSASB concluded that the concept of joint control does not reflect the issues addressed in this Standard, and agreed to exclude the formation of joint arrangements or joint ventures from its scope.

BC14. The IPSASB noted that combinations of two or more joint arrangements may occur. The IPSASB considered that, where such a combination results in the formation of a new joint arrangement, this would be outside the scope of IPSAS 40. The IPSASB noted that a combination may result in the acquisition of one or more joint arrangements by another joint arrangement. In such circumstances, the entities that previously had control over the acquired joint arrangements give up that joint control. Such a combination would be an acquisition within the scope of IPSAS 40.

BC15. The IPSASB also agreed to exclude from the scope of this Standard the acquisition by an investment entity of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit. Such transactions are considered to be investments rather than public sector combinations. IPSAS 35 prescribes the accounting requirements for such transactions.

Responses to ED 60, Public Sector Combinations

BC16. The IPSASB issued its proposals in ED 60, *Public Sector Combinations*, in January 2016. Respondents to ED 60 generally supported the proposed scope and the exclusions. The IPSASB considered the responses, and agreed that no changes to the scope were required. In doing so, the IPSASB noted that the scope of the standard included combinations undertaken on a temporary basis, for example the bailout of a private sector company with the intention of selling that company as soon as it was returned to a sound financial position. The IPSASB noted that including such combinations within the scope of this Standard was consistent with the decision taken in developing IPSAS 35 not to require a different accounting treatment for temporarily controlled entities.

Classification of Public Sector Combinations (paragraphs 7–14)

BC17. As a result of the responses it received to ED 41, the IPSASB concluded that distinguishing between entity combinations arising from exchange transactions and entity combinations arising from non-exchange transactions did not provide a suitable basis for a future IPSAS. Relying on the definition of "exchange transactions" in the IPSASB's literature would mean that most government interventions during times of

economic crisis, such as the global financial crisis in 2008, would not meet the definition of an acquisition. The IPSASB considered it inappropriate to define such "bailouts" as amalgamations.

BC18. The IPSASB also noted that IFRS 3 applied to a "business", not to an entity. As well as applying to an entity, the definition of a business could also apply to part of an entity that could be managed separately from the rest of the entity. The IPSASB had regard to these issues in developing its approach in the CP.

Classification Approach in the Consultation Paper, Public Sector Combinations

BC19. The approach taken in the CP was to distinguish between combinations where the parties to the combination are under common control, and combinations where the parties to the combination are not controlled by the same ultimate controlling party, i.e., not under common control. A further distinction was made between combinations where one party gains control of another party (considered by the CP to be acquisitions), and combinations where no party gains control of the other parties to the combination (considered by the CP to be amalgamations).

BC20. The IPSASB considered that the concept of control was important in determining the classification of a public sector combination. Control underpins much of financial reporting. IPSAS 35 requires an entity to consolidate those other entities that it controls, as does the predecessor standard, IPSAS 6, *Consolidated and Separate Financial Statements*. The IPSASB also noted that Government Finance Statistics adopts a similar approach to control as that adopted in both IPSAS 35 and IPSAS 6.

BC21. Similarly, control is an important factor when recognizing assets. Paragraph 5.6 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) defines an asset as "A resource presently controlled by the entity as a result of a past event."

BC22. The IPSASB determined, therefore, that control was an appropriate starting point for the classification of public sector combinations. As a result, the CP included the IPSASB's preliminary view as to the role of control in classifying public sector combinations:

"The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations."

BC23. In developing the CP, the IPSASB explained that the parties to a public sector combination under common control are ultimately controlled by the same entity both before and after the combination. This leads to economic differences between combinations that take place under common control and those that take place not under common control, as follows:

(a) Public sector combinations between entities within an economic entity (i.e., under common control) do not change the economic resources of that economic entity;

(b) Any surpluses and deficits resulting from a public sector combination under common control are eliminated in full in the ultimate controlling entity's consolidated GPFSs; and

(c) The ultimate controlling entity can specify whether any consideration is transferred (and if consideration is transferred, the amount of that consideration) in a public sector combination under common control.

These differences may have implications for the accounting treatment of a public sector combination under common control.

BC24. The approach in the CP reflected the IPSASB's views that:

(a) The economic differences between combinations that take place under common control and those that take place not under common control may have implications for their accounting treatment; and

(b) Acquisitions should be distinguished from amalgamations on the basis of control.

BC25. Similar numbers of respondents to the CP supported and disagreed with the proposals. Respondents who disagreed with the proposals suggested that distinguishing acquisitions from amalgamations based solely on control did not reflect public sector circumstances. In particular, these respondents noted that

(a) Public sector combinations may occur where it is not possible to identify an acquirer even if it is possible to identify an entity that has gained control of operations as a result of the public sector combination. Under IFRS 3, the acquirer can be identified by analyzing the ownership interests in the respective parties. However, in the public sector there may be no quantifiable ownership interests in the entities, making such an analysis impossible. The entity gaining control of the operations may not have existed prior to the combination, and if there are no quantifiable ownership interests in that entity, it will not be possible to identify an acquirer.

(b) Public sector combinations may be imposed on all parties to the combination by a higher level of government, for example when a central government reorganizes local government by legislating the combination of municipalities irrespective of the wishes of those -municipalities.

BC26. Respondents who disagreed with the proposals in the CP suggested a number of alternative bases for classifying public sector combinations, including:

(a) Variations of whether consideration was transferred:

(i) Consideration was transferred as part of the combination;

(ii) Significant consideration was transferred as part of the combination;

(iii) The combination was effected at market value;

(iv) Distinguishing acquisitions (which include the transfer of consideration) not under common control from all other combinations; and

(v) Distinguishing between combinations under common control on the basis of whether the combination has “commercial substance” (which includes the transfer of consideration).

(b) Whether the public sector combination was effected voluntarily or -involuntarily.

Development of the Classification Approach in ED 60, Public Sector Combinations

BC27. The IPSASB considered the responses to the CP. The IPSASB accepted that the classification approach adopted in the CP would not always reflect public sector circumstances. Consequently, the IPSASB agreed to revisit the classification of public sector combinations.

BC28. As part of this process, the IPSASB considered whether any of the approaches suggested by respondents might provide an alternative basis for classification. The IPSASB concluded that these approaches were not suitable, for the following reasons:

(a) The IPSASB came to the view that the transfer of consideration, on its own, was insufficient to distinguish an acquisition from an amalgamation. As noted in paragraph BC17 above, defining an acquisition as an exchange transaction would lead to bailouts being classified as amalgamations. Similarly, if an acquisition was defined as requiring consideration to be transferred by the acquirer, this could lead to bailouts being classified as amalgamations. Definitions of an acquisition that required the transfer of significant consideration, or for the public sector combination to take place at market value, would not address issues such as bargain purchases (discussed above in paragraph BC8(a)).

(b) The IPSASB came to the view that whether a public sector combination was effected voluntarily or involuntarily did not provide, on its own, sufficient information to classify a public sector combination. The voluntary or involuntary nature of a public sector combination provides information as to the process of the combination but not its outcome. Public sector combinations may have different

economic outcomes irrespective of their voluntary or involuntary nature. The IPSASB did not consider that it was possible to classify a public sector combination without considering the outcome of that combination. Consequently, the IPSASB did not consider a classification based solely on the voluntary or involuntary nature of the public sector combination would meet the objectives of financial reporting.

BC29. The IPSASB reviewed the role of control in classifying public sector combinations, and concluded that control remained an important factor in determining whether a combination was an acquisition or an amalgamation. In coming to this conclusion, the IPSASB noted that an acquisition could only occur when a party to the combination gained control of one or more operations (this is discussed in more detail in paragraph BC25(a) above). Consequently, the IPSASB reviewed the factors suggested by respondents to the CP to determine which factors might usefully supplement the concept of control.

BC30. The IPSASB discussed the following factors, and agreed that they could be helpful in supplementing the concept of control in classifying public sector combinations:

(a) **Consideration**. The IPSASB agreed that whether a public sector combination includes the transfer of consideration is relevant to classifying the combination. Acquisitions generally include consideration, whereas consideration will be absent from amalgamations. For the reasons given in paragraph BC28(a) above, the IPSASB agreed that the transfer of consideration in itself was not conclusive, and that more information about the nature of a combination would be obtained by having regard to the reasons why consideration was or was not transferred.

(b) **Exchange transactions**. The IPSASB agreed that an acquisition was more likely to occur in an exchange transaction than in a non-exchange transaction. However, the IPSASB had already acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations (see paragraph BC8(a) above). The IPSASB came to the conclusion that information about whether a public sector combination was an exchange transaction or a non-exchange transaction could be determined by having regard to the reasons why consideration was or was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.

(c) **Quantifiable ownership interests**. The IPSASB noted that whether there are quantifiable ownership interests in an operation can influence the economic substance of a public sector combination. If there are no quantifiable ownership interests in an operation, no consideration can be transferred as there is no party with an entitlement to receive the consideration. This can distinguish the combination from an acquisition, where there is always an owner to receive the consideration. The IPSASB noted that that lack of quantifiable ownership interests could be a reason why consideration was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.

(d) **Decision-making process**. The IPSASB agreed that having regard to which parties were able to make decisions regarding a public sector combination could provide useful information about the classification of that combination. In the private sector, combinations are usually entered into voluntarily, at least from the acquirer’s perspective. In the public sector, other parties may be involved in the decision-making process. The freedom that the parties to the combination are able to exercise may influence the economic substance of the combination and hence its classification.

(e) **Compulsion**. In the public sector, a public sector combination may be imposed by a higher level of government, whether or not that higher level of government controls the parties to the combination for financial reporting purposes. For example, a central government may restructure local government by directing certain municipalities to combine. The IPSASB agreed that compulsion was relevant to the classification of a public sector combination, but considered that information about compulsion would

be obtained by having regard to decision-making. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

(f) **Common control**. In developing the CP, the IPSASB identified the economic differences between public sector combinations that take place under common control and those that take place not under common control (see paragraph BC23 above). The IPSASB agreed that the ability of the controlling entity to specify whether any consideration is transferred is relevant to the classification of the combination, but considered this to be an element of the decision-making process. The fact that the economic resources of the economic entity do not change in a combination under common control, and that any surpluses or deficits would be eliminated on consolidation were seen as relevant to the controlling entity, but not the controlled entity. As the controlled entity will be the reporting entity for the combination, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

(g) **Citizens' rights**. In some jurisdictions, citizens may be part of the decision-making process, for example where public sector combinations are subject to the approval of citizens through a referendum. The IPSASB agreed that citizens' rights to accept or reject the combination was relevant to the classification of the combination. However, the IPSASB considered these rights to be rights to participate in the decision-making process. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

BC31. The IPSASB did not consider that the following factors would be helpful in supplementing the concept of control in classifying public sector combinations:

(a) **Change of sector**. The IPSASB acknowledged that a change of sector would be an indicator of a public sector entity acquiring an operation. However, the IPSASB considered that this change of sector would be a consequence of a change in control rather than a separate factor to be considered. The IPSASB also noted that the classification of institutional units into sectors based on their economic nature of being government units was a feature of GFS that had no equivalent in the IPSASB's literature. This will continue to be a significant difference between macroeconomic statistical reporting and accounting and financial reporting. Consequently, the IPSASB did not consider a change of sector to be a useful factor in classifying public sector combinations.

(b) **Nature of the jurisdiction**. Some responses to the CP suggested that, in jurisdictions where there is significant interaction or redistribution between the different levels of government, the public sector can be seen as operating as part of a single quasi "group" entity. Such a view could have implications for the classification of public sector combinations. The IPSASB did not consider that from the reporting entity's perspective, the nature of the jurisdiction was relevant to the classification of public sector combinations. A reporting entity could make an assessment of control, consideration and decision-making without reference to a quasi-group entity. The IPSASB noted that the nature of the jurisdiction may form part of the assessment of the nature of the public sector combination, which an entity may need to consider when the analysis of all other factors has produced inconclusive results or does not provide sufficient evidence to determine the appropriate classification of a public sector combination.

(c) **Operation of government**. Some respondents to the CP suggested that the operation of government would be relevant to the classification of public sector combinations. Examples given included:

(i) The existence of a ministerial or other government power enabling the government to direct the entity's governing body to achieve the government's policy objectives;

(ii) Ministerial approval is required for operating budgets; and

(iii) The government has broad discretion, under existing legislation, to appoint or remove a majority of the members of the governing body of the entity.

The IPSASB concluded that the examples were indicators of control or common control rather than suggesting an independent factor. As such, the IPSASB did not consider that the operation of government was relevant to the classification of public sector combinations.

(d) **The entity directs public policy and/or engages in non-market activity mainly financed by public resources**. Some respondents to the CP suggested that control should be supplemented by having regard to whether the entity directs public policy and/or engages in non-market activity mainly financed by public resources. Where this was the case, this would suggest an amalgamation. The IPSASB noted that this approach would require the introduction of new concepts into the IPSASB's literature. For example, non-market activity is a GFS concept that the IPSASB has not adopted. The IPSASB did not consider it appropriate to introduce these concepts in ED 60. Consequently, the IPSASB did not consider that this factor was relevant to the classification of public sector combinations.

(e) **Accountability**. Some respondents suggested that accounting for a public sector combination at fair value provides more information about the effect of that combination, but that this is only useful for accountability purposes where the entity was responsible for the decision to combine. The IPSASB did not consider accountability to be a primary factor in its own right, but acknowledged that the information resulting from the classification of a public sector combination should meet the objectives of financial reporting. In exceptional circumstances, when an analysis of consideration and the decision-making process produces an inconclusive result or does not provide sufficient evidence as to the appropriate classification of a public sector combination, an entity may need to consider other matters, including what information would meet the objectives of financial reporting and satisfy the qualitative characteristics (QCs).

BC32. The IPSASB concluded, therefore, that control should be supplemented by two additional factors–whether consideration was transferred, and the reasons for the presence or absence of consideration; and the decision-making process. These factors are wide ranging, and encompass elements of other factors, as discussed above.

BC33. The IPSASB noted that these factors could be used either to supplement the indicators of control in IPSAS 35, or could be used to supplement the control concept in classifying public sector combinations. The IPSASB debated the merits of these two approaches. The IPSASB noted that using the factors to supplement the indicators of control was likely to result in a classification approach that better satisfied the QC of comparability. However, the IPSASB considered that using the factors to supplement the control concept was likely to produce a classification approach that provided more relevant and faithfully representative information. Using the factors to supplement the control concept was also more likely to address the concerns raised by respondents.

BC34. Respondents to the CP had identified difficulties with distinguishing between acquisitions and amalgamations based solely on control that were unlikely to be fully addressed by further development of the indicators of control. The IPSASB agreed, and concluded that the gaining of control of operations by a party to the combination is an essential element of an acquisition, but is not sufficient in itself to determine whether a combination is an acquisition. Consequently, the IPSASB agreed to develop an approach to classifying public sector combinations that:

(a) Uses the factors to supplement the concept of control; and

(b) Considers control in the context of whether a party to the combination gains control of one or more operations as a result of the combination.

BC35. Having agreed to develop an approach that uses the factors to supplement control, the IPSASB discussed the relative importance to be attached to control and to the other factors in classifying public sector combinations. As part of this discussion, the IPSASB identified the following two approaches:

(a) **Rebuttable presumption approach**. Under this approach, when one party to the combination gains control of an operation, this creates a rebuttable presumption that the combination is an acquisition. This approach gives a strong weighting to the gaining of control, and the analysis of the other factors is focused on whether there is sufficient evidence to rebut this presumption.

(b) **Individual weighting approach.** Under this approach, the weightings given to the gaining of control, consideration and decision-making are a matter for professional judgment based on the individual circumstances of the combination. Preparers would identify which (if any) factors indicate an acquisition and which (if any) factors indicate an amalgamation. Where indicators of both an acquisition and an amalgamation are present, the weighting given to the respective factors by preparers using professional judgment would determine the classification.

BC36. The IPSASB noted that the rebuttable presumption approach provided greater clarity, and better satisfied the QC of comparability. The individual weighting approach was likely to be more subjective in practice. However, the IPSASB acknowledged that the individual weighting approach would enable practitioners to better reflect the economic substance of the combination, and might better meet the QCs of relevance and faithful representation.

BC37. Control was seen by most members as more important in determining the classification than the other factors, and the rebuttable presumption approach reflected this. Consequently, the IPSASB agreed to develop the rebuttable presumption approach.

BC38. In coming to this decision the IPSASB noted that an approach that considered other factors as supplementing control (which better satisfies the QCs of relevance and faithful representation at the expense of comparability) while at the same time incorporating a rebuttable presumption that one party to a combination gaining control of operations gives rise to an acquisition (which better satisfies the QC of comparability at the expense of relevance and faithful representation) is likely to produce an appropriate balance between the QCs.

BC39. The IPSASB also considered the possibility that, in rare circumstances, neither the consideration nor the decision-making indicators would be sufficient to rebut the presumption that a public sector combination was an acquisition even though this classification did not reflect the economic substance of the combination. The IPSASB agreed to require consideration of the -economic substance of the combination when determining whether the presumption should be rebutted. To assist preparers in this determination, ED 60 also required, in these rare circumstances, an assessment as to which classification produces information that best satisfies the objectives of financial reporting and the QCs.

BC40. The IPSASB considered that the most common circumstances in which a public sector combination would be considered an acquisition are:

(a) One party to the combination gains control of an operation and pays consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement.

(b) One party to the combination gains control of an operation from outside the public sector without paying consideration to compensate those with an entitlement to the net assets of the transferred operations.

(c) One party to the combination gains control of an operation from outside the public sector by imposing the combination on the other party.

(d) One party to the combination gains control of an operation from a separate government.

The IPSASB noted that, except in exceptional cases, the classification approach adopted in ED 60 would result in such combinations being classified as acquisitions. This provided reassurance to the IPSASB that the approach adopted was appropriate.

Responses to ED 60

BC41. The IPSASB considered the responses to ED 60. The IPSASB noted that there was substantial support for the overall approach to classifying public sector combinations in the ED.

BC42. Respondents did, however, identify areas where they considered the approach could be improved. The main issues identified were:

(a) Having a rebuttable presumption that was expected to be rebutted significantly more frequently than not was confusing;

(b) The approach was seen as giving too much emphasis to control, with some stakeholders interpreting the ED as requiring the use of the acquisition method in most cases where one party to the combination gained control of operations; and

(c) In many jurisdictions, it will be easier to determine the economic substance of a public sector combination by reference to the indicators (consideration and decision making) than by reference to whether one party to the combination gained control of operations.

BC43. The IPSASB acknowledged these concerns. The IPSASB accepted that rebuttable presumptions are generally expected to be rebutted infrequently, and that the use of this term with an expectation that it would be frequently rebutted may be confusing for preparers. This confusion could result in a preparer classifying a public sector combination as an acquisition when this was not the IPSASB's intention.

BC44. The IPSASB considered that the potential confusion as to how the rebuttable presumption was to be interpreted might explain the concerns of some stakeholders that the acquisition method would be used inappropriately. The IPSASB did not intend that the approach in the ED would require the use of the acquisition method in most cases where one party to the combination gained control of operations. The IPSASB considered that acquisitions would arise in limited circumstances, as can be seen from the list in paragraph BC40 above.

BC45. The IPSASB accepted that, in many jurisdictions, the economic substance of a public sector combination could be more readily determined by reference to the indicators, in particular whether a combination occurred under common control. However, the IPSASB noted that this was not the case for all jurisdictions. The IPSASB noted that control remained a significant factor; in particular, an acquisition can only occur when a party to the combination gains control of one or more operations. The IPSASB also noted that the approach in ED 60 provided a suitable decision framework for ensuring all relevant factors were considered.

BC46. Consequently, the IPSASB agreed to reconsider the way the classification approach is expressed to address these concerns, without changing the substance of the approach. The rebuttable presumption and reference to control was intended to be the first step in the process of determining a classification based on the economic substance of the combination. In creating this first step, the IPSASB did not intend that, once it has been established that one party has gained control, control should be given greater weight than consideration and decision making in determining the economic substance of the combination. The IPSASB accepted that the reference in BC35(a) to the approach giving a strong weighting to the gaining of control could be misleading. Control remains important, as its absence eliminates the possibility of an acquisition, but its significance in determining the economic substance of a particular combination where one party has gained control is a matter of professional judgment. The IPSASB remains of the view that the classification approach in ED 60 was appropriate, and the changes introduced in this Standard are intended to provide greater clarity as to how the approach should be applied. These changes are not intended to produce different classifications from ED 60.

Comparison with IFRS 3

BC47. This Standard is not converged with IFRS 3. IFRS 3 considers all business combinations to be acquisitions, whereas this Standard provides for both amalgamations and acquisitions. The IPSASB considers this difference to be appropriate, for the following reasons:

(a) In developing IFRS 3, the IASB concluded that 'true mergers' or 'mergers of equals' in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. However, in the public sector, such combinations are common. Developing a Standard that did not address amalgamations would not meet the needs of the users of public sector GPFSs.

(b) IFRS 3 assumes that it is always possible to identify the acquirer, as the businesses to which IFRS 3 applies will always have owners. In the public sector, there may be no quantifiable ownership interests in a public sector entity, which can make it impossible to identify an acquirer. Developing a Standard that does not recognize this situation would not meet the needs of the users of public sector GPFSs.

Accounting for Amalgamations (paragraphs 15–57)

Reasons for Adopting the Modified Pooling of Interests Method of Accounting for Amalgamations

BC48. In developing the CP, the IPSASB identified three methods of accounting for public sector combinations that have either been applied in practice, or discussed. These are:

(a) The acquisition method;

(b) The pooling of interests method, including a possible modification to this method; and

(c) The fresh start method.

BC49. The acquisition method (which is applied by IFRS 3) requires that an acquirer is identified for all combinations. The IPSASB had already concluded that it may not be possible to identify an acquirer for all public sector combinations, and that any combination in which an acquirer could not be identified would be classified as an amalgamation. The IPSASB therefore concluded that the acquisition method of accounting would not be appropriate for amalgamations.

BC50. The pooling of interests method of accounting was previously used in IAS 22, *Business Combinations* (the predecessor standard to IFRS 3). It was intended for application to a combination in which an acquirer cannot be identified. The pooling of interests method of accounting was previously used by many jurisdictions as the basis for merger accounting or amalgamation accounting. It continues to be used by many entities when accounting for combinations under common control (which are outside the scope of IFRS 3).

BC51. The pooling of interests method accounts for the combining operations as though they were continuing as before, although now jointly owned and managed. The financial statement items of the combining operations for the period in which the combination occurs, and for any comparative periods disclosed, are included in the financial statements of the resulting entity as if they had been combined from the beginning of the earliest period presented. In other words, the recognition point is the beginning of the earliest period presented, and, consequently, comparative information is restated.

BC52. The IPSASB noted that some are of the view that the requirement to restate comparative information might be onerous and unnecessary. In the CP, the IPSASB consulted on a variation of the pooling of interests method of accounting, described as the modified pooling of interests method of accounting. Under the modified pooling of interests method, the resulting entity combines the items in the statement of financial position as at the date of the amalgamation.

BC53. The third method the IPSASB discussed in the CP was the fresh start method of accounting. In contrast to the pooling of interests method of accounting, the premise of the fresh start method is that the resulting entity

is a new entity (irrespective of whether a new entity is formed) and therefore its history commences on that date. The modified pooling of interests method has a similar effect in practice.

BC54. The fresh start method requires recognition of all of the identifiable assets and liabilities of all the combining operations at fair value as at the date of the combination in the financial statements of the resulting entity. This includes recognizing identifiable assets and liabilities that were not previously recognized by the combining operations. In other words, the fresh start method uses the same recognition and measurement basis as the acquisition method, but applies it to all of the combining operations rather than just acquired operations.

BC55. In developing the CP, the IPSASB came to the conclusion that the pooling of interests method of accounting, the modified pooling of interests method of accounting and the fresh start method of accounting all provided a possible basis for accounting for amalgamations.

BC56. The IPSASB noted that the future cash flows and service potential of the -resulting entity will generally be the same regardless of which method is used to account for the amalgamation. However, the presentation of the financial performance and financial position of the resulting entity differs -significantly depending on the method applied. If preparers are given a free choice of method, this would reduce comparability between entities and over time.

BC57. Supporters of the pooling or modified pooling of interests method of accounting for amalgamations considered that these methods satisfy users' needs:

(a) For information for decision-making purposes; and

(b) To assess the accountability of the resulting entity for its use of -resources.

This is because users of public sector entities' GPFSs use the information to assess how financial resources have been allocated and the financial condition of an entity. This information can be obtained by applying the pooling or modified pooling of interests methods of accounting.

BC58. These methods are seen as satisfying the QCs of relevance and faithful representation, because they reflect the amounts recognized in the financial statements of the combining operations before the amalgamation. The subsequent performance of the resulting entity, and its accountability for the management of those resources, can be assessed on the same basis as was used to assess accountability before the amalgamation.

BC59. The pooling or modified pooling of interests methods of accounting are seen as generally the least costly to apply, because they:

(a) Use the existing carrying amounts of the assets, liabilities, and net -assets/equity of the combining operations; and

(b) Do not require identifying, measuring, and recognizing assets or -liabilities not previously recognized before the amalgamation.

BC60. Supporters of the modified pooling of interests method of accounting consider it to be superior to the pooling of interests method because it portrays the amalgamation as it actually is. This is because it recognizes the assets and liabilities of the combining operations at the date of the amalgamation. Supporters consider this to be a faithful representation of the amalgamation.

BC61. Those who support the use of the modified pooling of interests method acknowledge that the history of the combining operations may help in assessing the performance of the resulting entity. In debating the merits of the different methods, the IPSASB acknowledged that adopting the modified pooling of interests method of accounting without addressing users' needs for historical information may not satisfy the objectives of financial reporting.

BC62. Others consider that the fresh start method of accounting is conceptually -superior to both the pooling of interests method of accounting and its modified version, because the resulting entity is held accountable for the current value of the resources of the combining operations. It also provides more complete information of an amalgamation, because it recognizes the identifiable assets and liabilities of the combining operations, regardless of whether they were recognized prior to the amalgamation.

BC63. Supporters of the fresh start method of accounting consider that it satisfies users' needs:

(a) For information for decision-making purposes; and

(b) To assess the accountability of the resulting entity for its use of -resources.

This is because it enables users to better assess the financial condition of the entity and how the financial resources have been allocated.

BC64. Supporters of the fresh start method of accounting consider that this method is, to a large extent, an extension of the use of fair value in the acquisition method of accounting. Consequently, they argue that if the acquisition method is adopted for acquisitions, there is no reason not to adopt similar accounting for amalgamations.

BC65. In developing the CP, the IPSASB came to the view that the modified pooling of interests method of accounting is the appropriate method to apply, because users' are able to assess the performance and accountability of the resulting entity without the entity having to remeasure its assets and liabilities. Furthermore, it recognizes the amalgamation on the date it takes place. The IPSASB noted that IPSAS permit revaluation to fair value subsequent to initial recognition if a resulting entity considers that this approach would provide more relevant information to users.

BC66. Respondents to the CP generally supported the IPSASB's view that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. The IPSASB reconsidered the methods in developing ED 60, and identified no reason to change its previously stated view. The IPSASB therefore agreed that the modified pooling of interests method of accounting should be adopted for amalgamations in ED 60. In coming to this decision, the IPSASB agreed that the modified pooling of interests method of accounting should include appropriate disclosures to ensure that the users of public sector entities' GPFSs had access to the historical information they need.

BC67. Respondents to ED 60 generally agreed that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. However, some respondents considered that the pooling of interests method of accounting provided better information, and only supported the modified pooling of interests method for cost/benefit reasons. These respondents considered that, in some circumstances, the benefits of providing prior period information would outweigh the cost of so doing. The IPSASB accepted this view, and agreed that resulting entities should be permitted, but not required, to present prior period information. The IPSASB decided that prior period information should not be restated, as doing so would require the use of a different recognition point, which would reduce comparability.

Exceptions to the Principle that Assets and Liabilities are Recognized and Measured at their Previous Carrying Amount

BC68. The modified pooling of interests method of accounting requires the resulting entity to recognize and measure the assets and liabilities of the combining operations at their previous carrying amounts, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The effects of all transactions between the combining operations, whether occurring before or after the amalgamation date, are eliminated in preparing the financial statements of the resulting entity.

BC69. The IPSASB considered the circumstances in which the application of these principles would not be appropriate. The IPSASB identified three circumstances in which an exception to the recognition and/or measurement principles would be appropriate:

(a) **Licenses and similar rights previously granted by one combining operation to another combining operation**. A license or similar right may have been granted by one combining operation to another combining operation and recognized as an intangible asset by the -recipient. Applying the general principles would require this transaction to be eliminated. However, the IPSASB considered that, in granting the license or similar right, the recognition criteria for an intangible asset are met. Where internally generated intangible assets are not recognized, this is because of the problems in Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and in determining the cost of the asset reliably. Once a license or similar right has been granted to a recipient, this demonstrates that there is an identifiable asset that will generate future economic benefits or service potential. Similarly, the transaction will establish a cost for the asset. Consequently, the recognition criteria for an intangible asset are met. Because of this, the asset is not eliminated when combining operations that have granted and received the license or similar right are part of an amalgamation. The situation is similar to that where a tangible asset is sold by one combining operation to another combining operation. Eliminating the effect of the sale does not eliminate the tangible asset itself, as the asset was previously recognized by the seller. In the case of a license or similar right, eliminating the transaction does not eliminate the intangible asset, as the transaction provides sufficient evidence of the existence of the intangible asset, such that the grantor would itself recognize that intangible asset. The IPSASB noted that in some cases where a combining operation gains control of other operations, the right might be considered as a reacquired right. The IPSASB did not consider that this would warrant a different accounting treatment, and noted that reacquired rights are recognized as intangible assets under the acquisition method. For these reasons, the IPSASB concluded that the asset recognized in respect of a license or similar right previously granted by one combining operation to another should not be eliminated.

(b) **Income taxes**. In the public sector, amalgamations, especially those imposed by a higher level of government, may include tax forgiveness as part of the terms and conditions of the amalgamation. The IPSASB agreed that the resulting entity should recognize any tax items that exist following the amalgamation rather than those that existed prior to the amalgamation. Having considered comments by respondents to ED 60, the IPSASB agreed that there may be cases where any tax forgiveness arises subsequent to the amalgamation, rather than as part of the terms and conditions of the amalgamation. The IPSASB agreed to include provisions dealing with both cases in IPSAS 40.

(c) **Employee benefits**. The IPSASB noted that the assets and liabilities required to be recognized by IPSAS 39, *Employee Benefits*, in respect of a post-employment benefit plan following an amalgamation might differ from the combined carrying amounts of the combining operations' equivalent amounts. As an example, an amalgamation involves five combining operations who are the only participants in a multi-employer defined benefit plan. Prior to the amalgamation, the combining operations have insufficient information to determine each combining operation's proportionate share of the defined benefit obligation, plan assets, and cost associated with the plan. As a result, the combining operations account for the plan as if it is a defined contribution plan. Following the amalgamation, the resulting entity is the only participant in the plan, and is able to determine its defined benefit obligation, plan assets, and cost associated with the plan. It therefore accounts for the plan as a defined benefit plan from the date of the amalgamation. The IPSASB agreed that the resulting entity's opening statement of financial position should include the assets and liabilities measured in accordance with IPSAS 39.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

BC70. In developing ED 60, the IPSASB noted that a residual amount might arise as a result of an amalgamation. The IPSASB considered how this should be -recognized and measured. The IPSASB agreed that the residual

amount does not reflect the financial performance of the resulting entity, and -concluded that the residual amount should be recognized in the resulting entity's -opening statement of financial position.

BC71. The IPSASB considered the nature of the residual amount. The IPSASB considered that, for amalgamations not under common control, the residual amount represents the past financial performance of the combining operations not included in their transferred net assets/equity. The IPSASB agreed that the residual amount should be included in the resulting entity's opening net assets/equity where the amalgamation takes place not under common control.

BC72. The IPSASB considered that, for amalgamations under common control, the residual amount represents the financial consequences of decisions made by the controlling entity in setting or accepting the terms of the amalgamation. Consequently, the IPSASB agreed that the residual amount should be treated as an ownership contribution or ownership distribution where the amalgamation takes place under common control.

BC73. The IPSASB considered the items that should be included in the residual amount. The IPSASB noted that the modified pooling of interests method of accounting usually recognizes an amalgamation as giving rise to, in substance, a new entity on the date the amalgamation takes place. As the new entity would not have generated other components of net assets/equity such as accumulated surplus or deficit, or revaluation surplus, all items within net assets/equity would be included as part of the residual amount.

BC74. The IPSASB considered that this approach best reflects the conceptual basis of an amalgamation and agreed that all items within net assets/equity at the amalgamation date should be considered to be part of the residual amount. In coming to this view, the IPSASB accepted that this approach may have consequences for some entities. For example, because the residual amount would include any previously recognized revaluation surplus, any future revaluation decreases are more likely to be recognized in surplus or deficit. This is because the previously recognized revaluation surplus would no longer be available to absorb future revaluation decreases.

BC75. Another consequence relates to amalgamations that take place under common control. The resulting entity would recognize a residual amount but the controlling entity would continue to recognize the previous components of net assets/equity in its consolidated financial statements, giving rise to ongoing consolidation adjustments. The IPSASB did not consider that these consequences outweighed the benefits of adopting the conceptual approach.

Responses to ED 60

BC76. Although the majority of respondents to ED 60 supported the IPSASB's approach to the residual amount, a significant minority did not. The main reasons respondents gave for not supporting the proposed treatment of the residual amount were as follows:

(a) Retaining existing reserves better represents the combination, is more transparent and better meets users' needs;

(b) The proposals will result in reliable information on the revaluation reserve being discarded;

(c) For amalgamations under common control, the combining entities may effectively be continuing as one entity rather than as two or more separate entities, as opposed to being a new entity;

(d) Reporting subsequent revaluation losses as an expense risks misrepresenting financial performance in future years;

(e) The proposals will produce ongoing consolidation adjustments where the amalgamation takes place under common control, and the need to prepare these adjustments outweighed the benefits of recognizing a single residual amount; and

(f) The proposals will impact on a wide range of reserves, including those relating to employee benefits, hedging and reserves restricted by legislation, which would be inconsistent with ED 60's requirement that the existing classifications and designations are maintained.

BC77. The IPSASB was persuaded by some of the reasons provided by respondents. In particular the IPSASB acknowledged that the proposals in ED 60 might be internally inconsistent.

BC78. The IPSASB therefore reconsidered the proposal to require all amounts recognized in net assets/equity to be recognized in the residual amount.

BC79. The IPSASB concluded that the most appropriate presentation of net assets/equity would depend on the circumstances of the amalgamation. In an amalgamation not under common control, and where there were no reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity could provide faithfully representative information. In an amalgamation under common control, and with reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity is unlikely to provide faithfully representative information. In these circumstances, presenting separate components of net assets/equity will provide more relevant and useful information.

BC80. Consequently, the IPSASB decided not to specify which components of net assets/equity should be presented, as preparers will be in the best position to judge the most appropriate treatment. The IPSASB agreed to amend the requirements accordingly.

Measurement Period

BC81. IFRS 3 permits acquirers a period of one year after the acquisition date to complete the accounting for the acquisition. This is to allow the acquirer sufficient time to obtain information to determine the fair value of an acquired operation's assets and liabilities.

BC82. When this Standard was issued, the IPSASB had considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity's accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in IPSAS 45 and IPSAS 17 referred to cost and fair value, while IPSAS 45 refers to historical cost, current operational value and fair value.

Combining Operations that Have Not Previously Adopted Accrual Basis IPSAS Standards

BC83. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more combining operations had not previously adopted accrual basis IPSAS Standards. For example, one public sector entity that has previously applied accrual basis IPSAS Standards may be amalgamated with a second public sector entity that has previously applied an alternative accrual basis of accounting. In such circumstances, recognizing and measuring the second public sector

entity's assets and liabilities at their carrying amount may not be consistent with the requirements of accrual basis IPSAS.

BC84. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 27 of IPSAS 40 requires the resulting entity to adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies. The IPSASB considered this requirement to be sufficient to address most circumstances where one or more combining operations had not previously adopted accrual basis IPSAS Standards.

BC85. The IPSASB came to the view that where adjusting the carrying amounts to conform to the resulting entity's accounting policies was insufficient to achieve compliance with accrual basis IPSAS Standards, the resulting entity would be a first-time adopter of accrual basis IPSAS Standards. This could occur where one or more combining operations had previously adopted the cash basis of accounting and had, therefore, not previously recognized certain assets and liabilities. In these circumstances, the resulting entity would apply IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* in preparing its first post-combination financial statements.

Accounting for Acquisitions (Paragraphs 58–125)

Reasons for Adopting the Acquisition Method of Accounting for Acquisitions

BC86. In developing the CP, the IPSASB did not reach a conclusion as to "whether the use of fair value as the measurement basis, is appropriate for some or all acquisitions in the public sector. This is because the most prevalent types of acquisition occur where operations are acquired for the achievement of objectives relating to the delivery of goods and/or services, instead of generating economic benefits to return to equity holders. Moreover, many acquisitions do not include the transfer of consideration. Some consider that these types of acquisitions are different in nature from business combinations as identified in IFRS 3, because the concept of acquiring an operation directly in exchange for the transfer of consideration is missing." Respondents to the CP generally supported the use of fair value for acquisitions in which consideration was transferred. For acquisitions in which no consideration was transferred, there was broadly equal support for fair value measurement and measurement at carrying amount.

BC87. The arguments developed in the CP reflected the classification approach in the CP. In the CP, the IPSASB proposed that the gaining of control was the sole definitive criterion for distinguishing an amalgamation from an acquisition. The IPSASB has subsequently decided to supplement the gaining of control with two other factors, consideration and decision-making. The IPSASB considers that this will result in fewer public sector combinations being classified as acquisitions than under the approach in the CP. Those public sector combinations that are classified as acquisitions will be similar in nature to the business combinations addressed by IFRS 3.

BC88. Having regard to the revised classification approach that it had agreed to adopt, the IPSASB reconsidered which accounting method would be appropriate for acquisitions. The IPSASB concluded that the acquisition method was appropriate, and agreed to adopt the acquisition method as set out in IFRS 3 as the accounting method for acquisitions in this Standard. This approach was supported by respondents to ED 60.

Differences to the Accounting Treatments in IFRS 3

BC89. IFRS 3 includes accounting treatments that are based on other IFRS Standards for which there is no equivalent IPSAS, for example income taxes and share-based payment. The IPSASB agreed not to include the detailed requirements specified in IFRS 3, but to include references to the relevant international or national accounting standard dealing with the issue.

BC90. The IPSASB considered whether any additional guidance to that provided by IFRS 3 was required. The IPSASB noted that acquisitions in the public sector may include assets and liabilities arising from non-exchange transactions that are not addressed in IFRS 3. Consequently, the IPSASB agreed to include additional guidance on the following non-exchange items:

(a) Tax forgiveness; and

(b) The subsequent measurement of transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that may change as a result of an acquisition.

BC91. The IPSASB considered comments from respondents to ED 60 regarding the acquisition method. As a result, the IPSASB agreed to make minor changes to the requirements:

The tax forgiveness requirements have been amended to allow for those cases where tax forgiveness occurs subsequent to the acquisition as well as where it forms part of the terms of the acquisition.

The IPSASB considered whether any additional exemptions to the recognition and measurement principles or any additional guidance on the acquisition method were required. The IPSASB concluded that no further provisions were necessary, as the Board considered that the provisions in this Standard or in other IPSAS were already sufficiently clear.

Acquired Operations that Have Not Previously Adopted Accrual Basis IPSAS

BC92. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more acquired operations had not previously adopted accrual basis IPSAS. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 64 of IPSAS 40 requires an acquirer to recognize the identifiable assets acquired, the liabilities assumed and any non-controlling interest in an acquired operation. Paragraph 72 of the Standard requires the acquirer to measure the assets and liabilities acquired at their acquisition-date fair values. Consequently, the acquirer will measure all assets and liabilities in accordance with accrual basis IPSAS, irrespective of the accounting basis previously adopted by an acquired operation.

Fair Value Cannot be Determined

BC93. Respondents to ED 60 commented that, in exceptional circumstances, it may be impracticable for an acquirer to determine the fair value of an item and suggested that the use of the item's previous carrying amount may be an appropriate alternative. The IPSASB considered this suggestion but concluded that using carrying amount may not be appropriate in all instances, particularly if the acquired operation does not apply accrual based IPSAS. The IPSASB agreed that entities should apply the existing requirements in IPSAS. In particular, the IPSASB noted that, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. IPSAS 3 provides additional guidance. In such cases, the acquirer would measure the item as of the acquisition date in a manner that is consistent with other IPSAS and the acquirer's accounting policies, and make the disclosures required by other IPSAS. The IPSASB considered that it would be appropriate to measure the item at its previous carrying amount only where that carrying amount is consistent with other IPSAS and the acquirer's accounting policies.

Revision of IPSAS 40 as a result of *Improvements to IPSAS, 2018*

BC94. The IPSASB reviewed the revisions to IFRS 3, *Business Combinations, included in Annual Improvements to IFRS® Standards 2015–2017* Cycle issued by the IASB in December 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions. The IPSASB concurred that, as the accounting for an acquisition achieved in stages was the same in IPSAS 40 as in IFRS 3, there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 40 as a result of *Improvements to IPSAS, 2019*

BC95. The paragraph related to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued in 2015) was inadvertently omitted when IPSAS 40 was issued. The IPSASB added paragraph 126C to ensure consistency with IPSAS 33.

Revision of IPSAS 40 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC96. The IPSASB replaced the term ‘valuation techniques’ with the term ‘measurement techniques’ for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

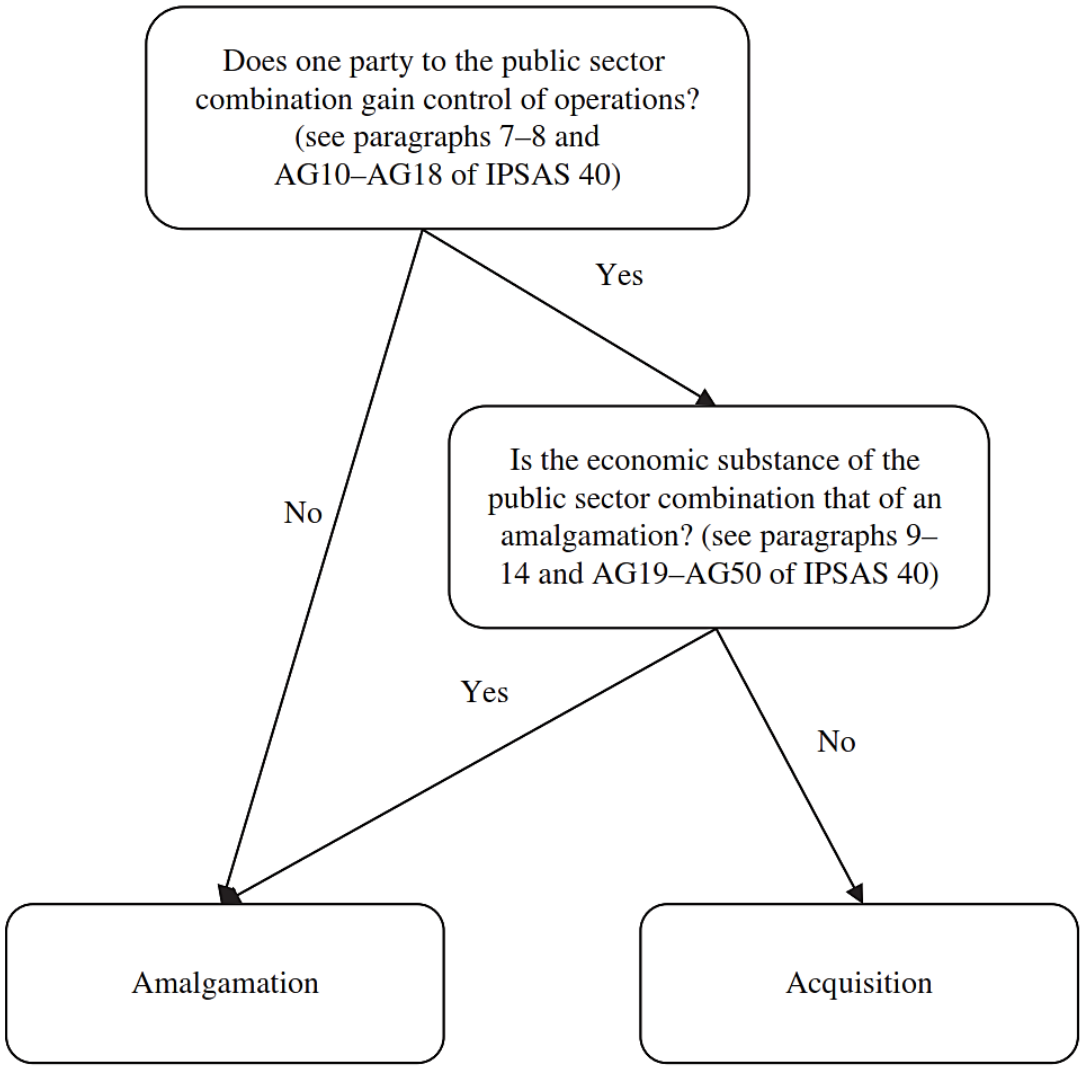
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 40.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 40.

Classification of Public Sector Combinations

IG2. The diagram below summarizes the process established by IPSAS 40 for classifying public sector combinations.



Illustrative Examples

These examples accompany, but are not part of, IPSAS 40.

Classification of Public Sector Combinations

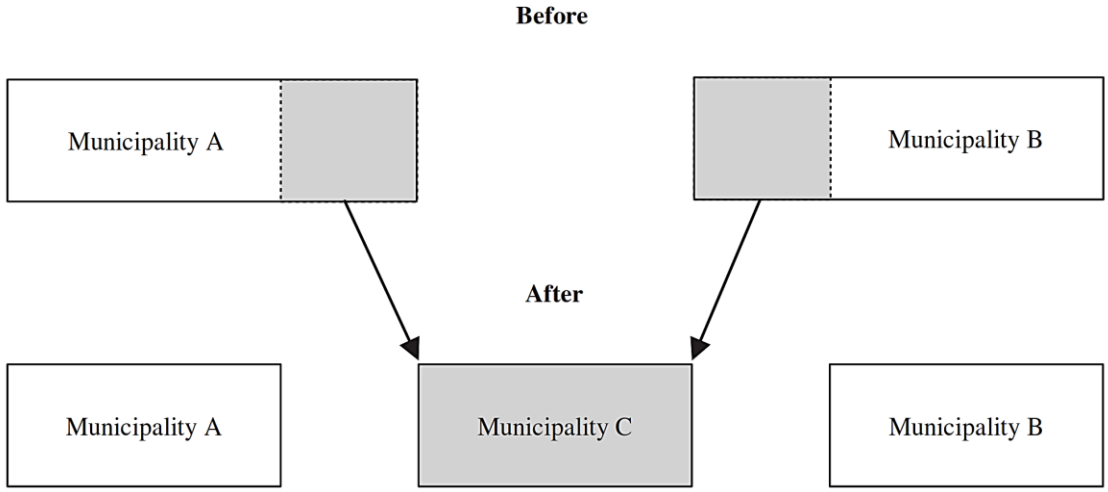
Illustrating the Consequences of Applying Paragraphs 7–14 and AG10–AG50 of IPSAS 40

IE1. The following scenarios illustrate the process for classifying public sector combinations. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 40.

IE2. Each scenario is illustrated by a diagram. Where a public sector combination involves operations which form part of an economic entity, but not the whole economic entity, the operations that are involved in the combination, and the entity that is formed by the combination, are shaded in the diagram. Where more than one reporting entity is included in an economic entity, the boundary of the economic entity is shown by a dotted line.

IE3. The following diagram illustrates the creation of a new municipality by combining some operations from two existing municipalities.

Scenario 1: Reorganization of Local Government by Rearranging Territorial Boundaries



IE4. In this scenario, the territorial boundaries of two existing municipalities, Municipality A and Municipality B, are redrawn by Parliament through legislation; neither Parliament nor Central Government controls Municipality A or Municipality B. Responsibility for part of each municipality's former territory is transferred to a new municipality, Municipality C. Operations in respect of the transferred territory are combined to form Municipality C. A public sector combination occurs.

IE5. Municipality A and Municipality B remain otherwise unchanged and retain their governing bodies. A new governing body (unrelated to the governing bodies of Municipality A and Municipality B) is elected for Municipality C to manage the operations that are transferred from the other municipalities.

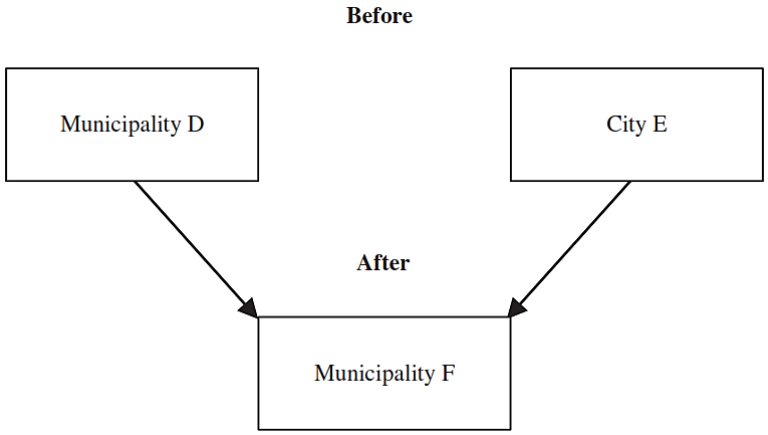
IE6. The creation of Municipality C is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE7. Municipality C has a newly elected governing body, unrelated to the governing bodies of Municipality A and Municipality B. Neither Municipality A nor Municipality B has power over the Municipality C. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality C.

IE8. Neither Municipality A nor Municipality B have gained control over Municipality C as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Reorganization of Local Government by Combining Municipalities into a New Legal Entity

IE9. The following diagram illustrates the creation of a new municipality by combining all of the operations of two existing municipalities into a new legal entity.



IE10. In this scenario, a public sector combination occurs in which Municipality F is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of Municipality D and City E. Prior to the combination, Municipality D and City E are not under common control. The combination is imposed by the provincial government (a third party) through legislation. The provincial government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE11. The legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. Municipality D and City E have no role in determining the terms of the combination. After the combination, Municipality D and City E cease to exist.

IE12. The creation of Municipality F is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE13. Municipality F has a newly formed governing body, unrelated to the governing bodies of Municipality D and City E. Neither Municipality D nor City E has power over Municipality F. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality F.

IE14. Neither Municipality D nor City E have gained control over Municipality F as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Variation

IE15. In scenario 2, the legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. In this variation, the legislation that creates Municipality F provides for the governing body of Municipality D to become the governing body of Municipality F.

IE16. This suggests that as part of the public sector combination that creates -Municipality F, Municipality D is gaining control of the operations of City E. However, the assessment as to whether Municipality D is gaining

control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Municipality F considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40.

IE17. In this variation, it is assumed that the legislation that provides for the governing body of Municipality D to become the governing body of Municipality F results in Municipality D gaining:

(a) Power over the operations of City E;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE18. Municipality F concludes that, as a result of the public sector combination, Municipality D has gained control of City E. Municipality F considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE19. In considering the economic substance of the public sector combination, -Municipality F notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality D and City E. This is consistent with both an amalgamation and an acquisition. Municipality F also notes that Municipality D obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

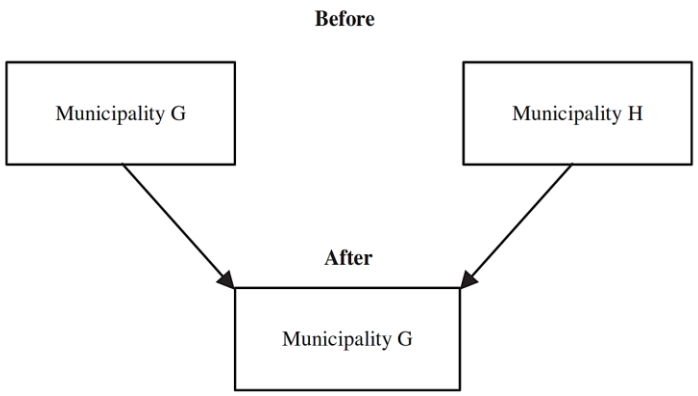
IE20. In considering the indicators relating to consideration, Municipality F notes that the public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of City E (i.e., there are no former owners of City E with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE21. In considering the indicators relating to the decision-making process, -Municipality F notes that the public sector combination was imposed by the provincial government (a third party) and that Municipality D and City E had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE22. Taking these factors together, Municipality F considers that the public sector combination should be classified as an amalgamation. In coming to this decision, Municipality F considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Reorganization of Local Government by Combining Municipalities into an Existing Legal Entity

IE23. The following diagram illustrates the combining of all of the operations of two existing municipalities into an existing legal entity.



IE24. In this scenario, a public sector combination occurs in which the operations of Municipality G and Municipality H (and their related assets, liabilities and components of net assets/equity) are combined into the legal entity of Municipality G. Prior to the combination, Municipality G and Municipality H are not under common control. The combination is imposed by Central Government (a third party) through legislation. Central Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE25. The legislation that effects the combination provides for the governing body of Municipality G to continue as the governing body of the combined entity. Municipality G and Municipality H have no role in determining the terms of the combination. After the public sector combination, Municipality H ceases to exist.

IE26. These facts suggest that as part of the public sector combination, Municipality G is gaining control of the operations of Municipality H. However, the assessment as to whether Municipality G is gaining control is based on the substance of the combination, not its legal form. Municipality G considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40 in determining whether to classify the combination as an amalgamation or an acquisition.

IE27. In this scenario, it is assumed that the legislation that provides for the governing body of Municipality G to continue as the governing body of combined entity results in Municipality G gaining:

(a) Power over the operations of Municipality H;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE28. Municipality G concludes that, as a result of the public sector combination, it has gained control of Municipality H. Municipality G considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE29. In considering the economic substance of the public sector combination, Municipality G notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality G and Municipality H. This is consistent with both an amalgamation and an -acquisition. Municipality G also notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

IE30. In considering the indicators relating to consideration, Municipality G notes that the public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of Municipality H (i.e., there are no former owners of Municipality H with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE31. In considering the indicators relating to the decision-making process, Municipality G notes that the public sector combination was imposed by Central Government (a third party) and that Municipality G and Municipality H had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE32. Taking these factors together, Municipality G considers that the public sector combination should be classified as an amalgamation. In coming to this decision, Municipality G considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Variation

IE33. In scenario 3, the legislation provides for the governing body of Municipality G to become the governing body of the combined entity. In this variation, the legislation provides for a new governing body to be formed that has no links to Municipality G or Municipality H.

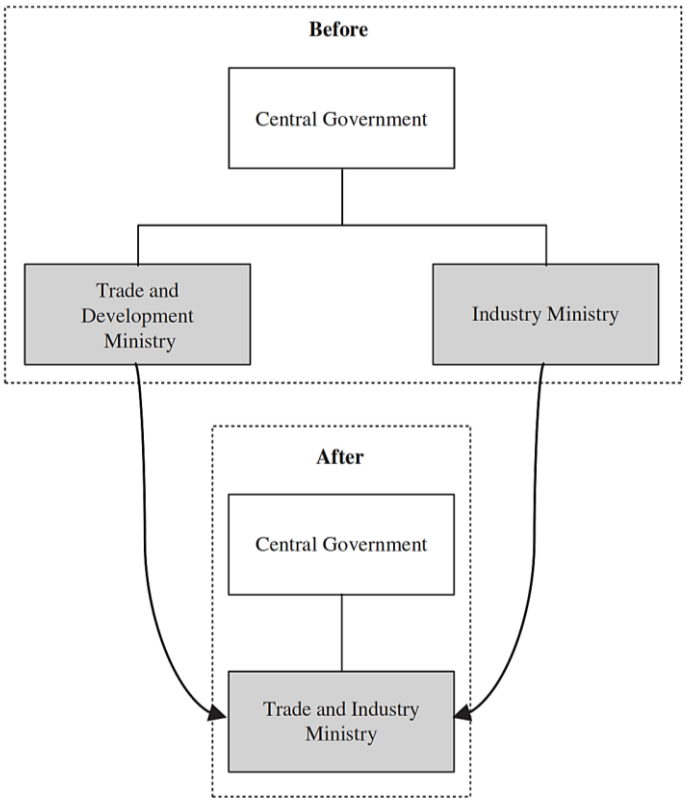
IE34. In determining whether this public sector combination should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE35. Despite its legal form continuing, Municipality G has a newly formed governing body, unrelated to its previous governing body or that of Municipality H. Consequently, the previous Municipality G does not gain power over Municipality H. Neither does it have exposure, or rights, to variable benefits from any involvement with Municipality H.

IE36. Municipality G has not gained control over Municipality H as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 4: Restructuring of Central Government Ministries

IE37. The following diagram illustrates the reorganization of Central Government ministries by combining the Trade and Development Ministry and the Industry Ministry into the newly formed Trade and Industry Ministry.



IE38. In this scenario, a public sector combination occurs in which the Trade and Industry Ministry is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of the Trade and Development Ministry and the Industry Ministry. All the ministries, both prior to and after the combination, are controlled by Central Government. The combination is imposed by Central Government using this control. The Trade and Development Ministry and the Industry Ministry have no role in determining the terms of the combination.

IE39. In effecting the combination, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. After the combination, the Trade and Development Ministry and the Industry Ministry cease to exist.

IE40. As Central Government controls the same operations both before and after the public sector combination, Central Government does not report a combination in its consolidated financial statements. The combination is reported by the Trade and Industry Ministry.

IE41. The creation of the Trade and Industry Ministry is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE42. Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. This suggests that as part of the public sector combination that creates the new Trade and Industry Ministry, the Industry Ministry is gaining control of the operations of the Trade and Development Ministry. However, the assessment as to whether the Industry Ministry is gaining control is based on the substance of the combination, not its form. In determining whether the combination should be classified as an amalgamation or an acquisition, the Trade and Industry Ministry considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40.

IE43. In this scenario, it is assumed that the decision of Central Government to give responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry results in the Industry Ministry gaining:

(a) Power over the operations of the Trade and Development Ministry;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE44. The Trade and Industry Ministry concludes that, as a result of the public sector combination, the Industry Ministry has gained control of the Trade and Development Ministry. The Trade and Industry Ministry considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE45. In considering the economic substance of the public sector combination, the Trade and Industry Ministry notes that the combination does not result in a controlling entity/controlled entity relationship between the Trade and -Development Ministry and the Industry Ministry. This is consistent with both an amalgamation and an acquisition. The Trade and Development Ministry also notes that the Industry Ministry obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition.

IE46. In considering the indicators relating to consideration, the Trade and Industry Ministry notes that the public sector combination does not include the payment of consideration because the combination took place under common control, and Central Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE47. In considering the indicators relating to the decision-making process, the Trade and Industry Ministry notes that the public sector combination takes place under common control. The combination was directed by Central Government and the Trade and Development Ministry and the Industry Ministry had no role in determining the terms of the combination. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Central Government,

the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE48. Taking these factors together, the Trade and Industry Ministry considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the fact that the public sector combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 4: Variation

IE49. In scenario 4, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. In this variation, Central Government appoints a new Minister and governing body.

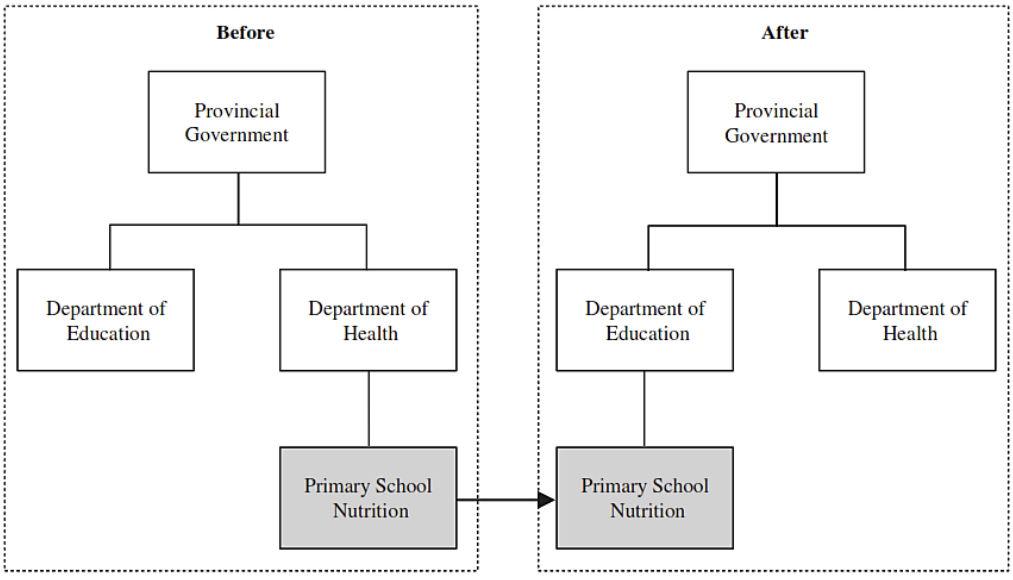
IE50. The creation of the Trade and Industry Ministry is a public sector combination under common control. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE51. The Trade and Industry Ministry has a new Minister and a newly formed governing body, unrelated to the governing bodies of the Trade and Development Ministry and the Industry Ministry. Neither the Trade and Development Ministry or the Industry Ministry has gained power over the operations of the other ministry. Neither do they have exposure, or rights, to variable benefits from any involvement with the operations of the other ministry.

IE52. Neither of the Trade and Development Ministry nor the Industry Ministry has gained control over the Trade and Industry Ministry as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 5: Transfer of Operations Under Common Control

IE53. The following diagram illustrates the transfer of operations between two public sector entities that are under common control.



IE54. In this scenario, a public sector combination occurs in which the Primary School Nutrition operation is transferred from the Provincial Government's Department of Health to its Department of Education. Both departments are controlled by the Provincial Government prior to and after the combination.

IE55. As the Provincial Government controls the same operations both before and after the public sector combination, the Provincial Government does not report a combination in its consolidated financial statements. The combination is reported by the Department of Education.

IE56. The transfer of the Primary School Nutrition operation is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Education considers is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE57. In this scenario, the Department of Education gains:

(a) Power over the Primary School Nutrition operation;

(b) Exposure, or rights, to variable benefits from its involvement with that operation; and

(c) The ability to use its power over that operation to affect the nature or amount of the benefits from its involvement with that operation.

IE58. The Department of Education concludes that, as a result of the public sector combination, it has gained control of the Primary School Nutrition operation. The Department of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE59. In considering the economic substance of the public sector combination, the Department of Education notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction; this may suggest that the economic substance of the combination is that of an acquisition.

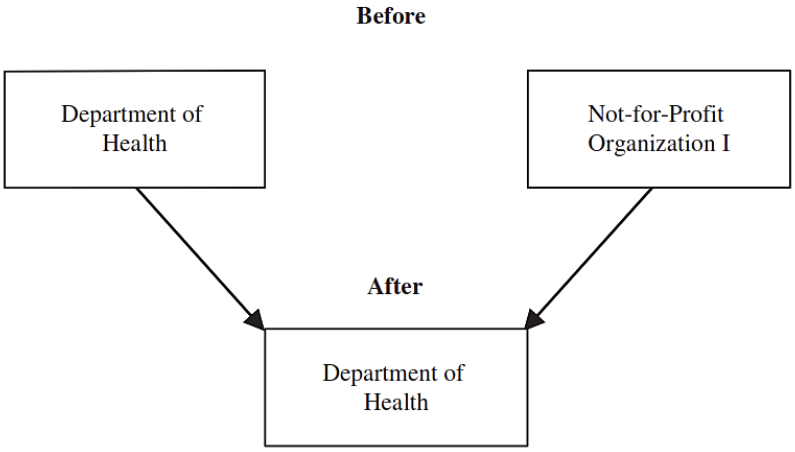
IE60. In considering the indicators relating to consideration, the Department of Education notes that the public sector combination does not include the payment of consideration because the combination took place under common control, and the Provincial Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE61. In considering the indicators relating to the decision-making process, the -Department of Education notes that the public sector combination takes place under common control. The combination was directed by the Provincial Government. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Provincial Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE62. Taking these factors together, the Department of Education considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the fact that the public sector combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 6: Combination of a Public Sector Entity with a Not-For-Profit Organization

IE63. The following diagram illustrates the combination of a public sector entity with a not-for-profit organization providing similar services.



IE64. In this scenario, a public sector combination occurs in which Not-for-Profit Organization I, a charity which provides paramedic services, voluntarily agrees to combine with the Department of Health in order to improve the delivery of services to the public. The operations of Not-for-Profit Organization I are integrated with similar operations provided by the Department of Health. Prior to the combination, the Department of Health has provided funding for Not-for-Profit Organization I. The Department of Health meets the cost of transferring the title to the assets and liabilities of Not-for-Profit Organization I incurred by the trustees of the charity.

IE65. The combination of the Department of Health and Not-for-Profit Organization I is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Health considers is whether it has gained control of operations as a result of the combination.

IE66. In this scenario, the Department of Health gains:

(a) Power over Not-for-Profit Organization I and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE67. The Department of Health concludes that, as a result of the public sector combination, it has gained control of Not-for-Profit Organization I. The Department of Health considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE68. In considering the economic substance of the public sector combination, the Department of Health notes that the combination does not result in a controlling entity/controlled entity relationship between the Department and Not-for-Profit Organization I. This is consistent with both an amalgamation and an acquisition.

IE69. In considering the indicators relating to consideration, the Department of Health notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Although the Department of Health makes a payment to the trustees, this is to compensate them for costs incurred in effecting the combination, not to compensate them for giving up their entitlement to the net assets of Not-for-Profit Organization I. Although Not-for-Profit Organization I has a Board of Trustees, these individuals are not entitled to the net assets of the operation. This means there is no party with an entitlement to the net

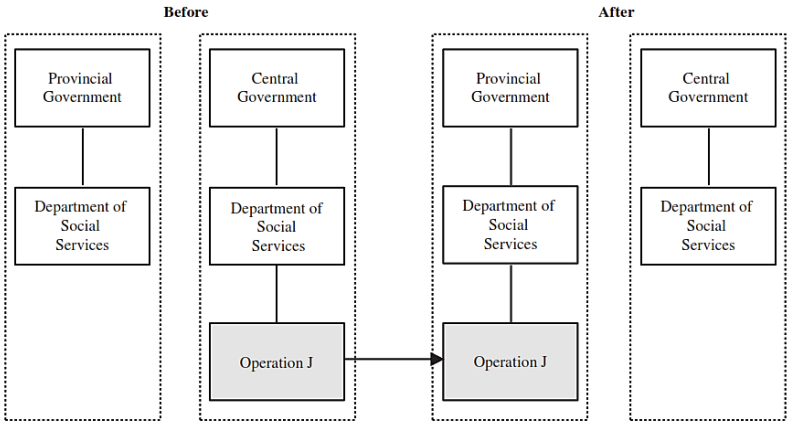
assets of Not-for-Profit Organization I (i.e., there are no former owners of Not-for-Profit Organization I with quantifiable ownership interests).This suggests that the economic substance of the combination is that of an amalgamation. In this scenario, this is confirmed by the fact that the purpose of the combination is to improve the delivery of services to the public.

IE70. In considering the indicators relating to the decision-making process, the Department of Health notes that the public sector combination was a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE71. Taking these factors together, the Department of Health considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination. In this scenario, this view is reinforced by the fact that that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public.

Scenario 7: Transfer of an Operation Between Levels of Government

IE72. The following diagram illustrates the transfer of an operation between levels of government.



IE73. In this scenario, Central Government adopts a policy of devolving responsibility for some social services to the Provincial Government. Consequently, it proposes transferring Operation J, which provides residential care services, from Central Government's Department of Social Services to the Provincial Government's Department of Social Services. The Provincial Government supports the policy and agrees to accept Operation J. Operation J has net assets of CU1,000[2]. There is no transfer of consideration by the Provincial Government to the Central Government. However, the transfer agreement imposes an obligation on the Provincial Government to continue to provide the residential care services for a minimum of 10 years. Operation J does not recover all its costs from charges; the Provincial Government therefore assumes the responsibility for providing resources to meet the shortfall. Following the transfer, the Provincial Government operates Operation J as a stand-alone entity (i.e., there is a controlling entity/controlled entity relationship between the Provincial Government and Operation J), although it plans to integrate the operation with its other operations at a later date, which would remove the controlling entity/controlled entity relationship.

IE74. The transfer of Operation J is a public sector combination that will need to be reported in both the Provincial Government's financial statements and those of the Provincial Government's Department of Social Services. As the analysis required will be the same for both entities, this example uses the term Provincial Government to refer to both entities.

[2] In these examples monetary amounts are denominated in 'currency units (CU)'

IE75. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Provincial Government considers is whether it has gained control of operations as a result of the combination.

IE76. In this scenario, the Provincial Government gains:

(a) Power over Operation J;

(b) Exposure, or rights, to variable benefits from its involvement with Operation J; and

(c) The ability to use its power over Operation J to affect the nature or amount of the benefits from its involvement with the operation.

IE77. The Provincial Government concludes that, as a result of the public sector combination, it has gained control of Operation J. The Provincial Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE78. In considering the economic substance of the public sector combination, the Provincial Government notes that the combination results in a controlling entity/controlled entity relationship between the Provincial Government and Operation J. This is inconsistent with the economic substance of an amalgamation.

IE79. In considering the indicators relating to consideration, the Provincial Government notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the transfer agreement requires the Provincial Government to continue to provide the services. As Operation J does not recover all its costs from charges, the Provincial Government will need to provide the necessary resources to cover the shortfall. The Provincial Government considers that the cost of providing services for the agreed 10 year period is likely to be approximately equal to the value of the net assets received. It therefore considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. Although no consideration is transferred, this reflects the fair value of the combination. The Provincial Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE80. In considering the indicators relating to the decision-making process, the Provincial Government notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE81. Taking these factors together, the Provincial Government concludes that there is no evidence that economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 7: Variation

IE82. In scenario 7, the Provincial Government considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. This is the reason that no consideration is paid. In this variation, Operation J is assumed to cover its costs from charges. Consequently, a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be greater than zero.

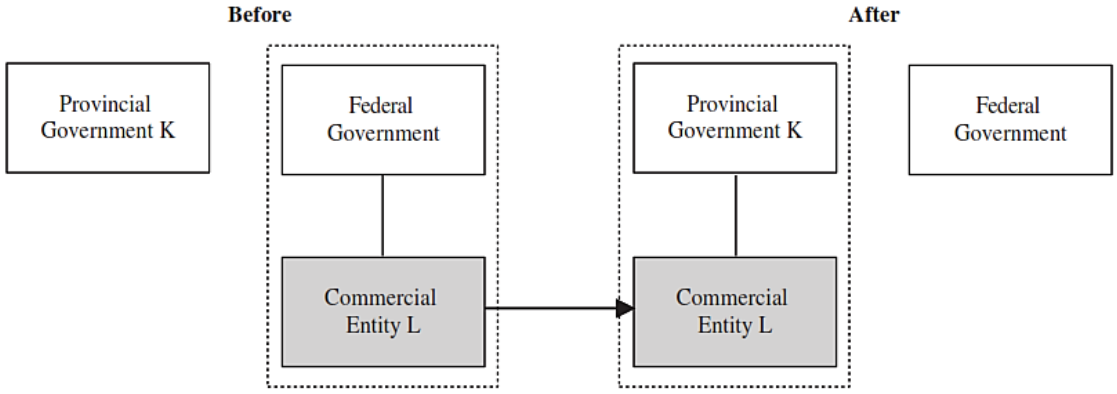
IE83. In these circumstances, the fact that the combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation may provide evidence that the economic substance of the combination is that of an amalgamation.

IE84. In determining the classification of the public sector combination, the Provincial Government considers which factor or factors are the most significant. The Provincial Government considers the fact that it has gained control of Operation J and the fact that the combination does not involve the integration of its operations and those of Operation J to be the most significant factors in determining the economic substance of the

combination. This suggests that the combination should be classified as an acquisition. The indicators relating to the decision-making process support this classification; only the indicators relating to consideration suggest that the economic substance of the combination may be an amalgamation. The Provincial Government therefore classifies the combination as an acquisition.

Scenario 8: Transfer of a Commercial Entity between Levels of Government

IE85. The following diagram illustrates the transfer of a commercial entity between levels of government.



IE86. In this scenario, the Federal Government agrees to transfer Commercial Entity L to Provincial Government K. Provincial Government K pays consideration to the Federal Government in respect of the transfer. Following the combination, Provincial Government K operates Commercial Entity L as an arms-length, stand-alone entity.

IE87. The transfer of Commercial Entity L is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government K considers is whether it has gained control of operations as a result of the combination.

IE88. In this scenario, Provincial Government K gains:

(a) Power over Commercial Entity L and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE89. Provincial Government K concludes that, as a result of the public sector combination, it has gained control of Commercial Entity L. Provincial Government K considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE90. In considering the economic substance of the public sector combination, Provincial Government K notes that the combination results in a controlling entity/controlled entity relationship between the Provincial Government and Commercial Entity L. This is inconsistent with the economic substance of an amalgamation. Provincial Government K also notes that the combination has commercial substance, which is suggestive of an acquisition.

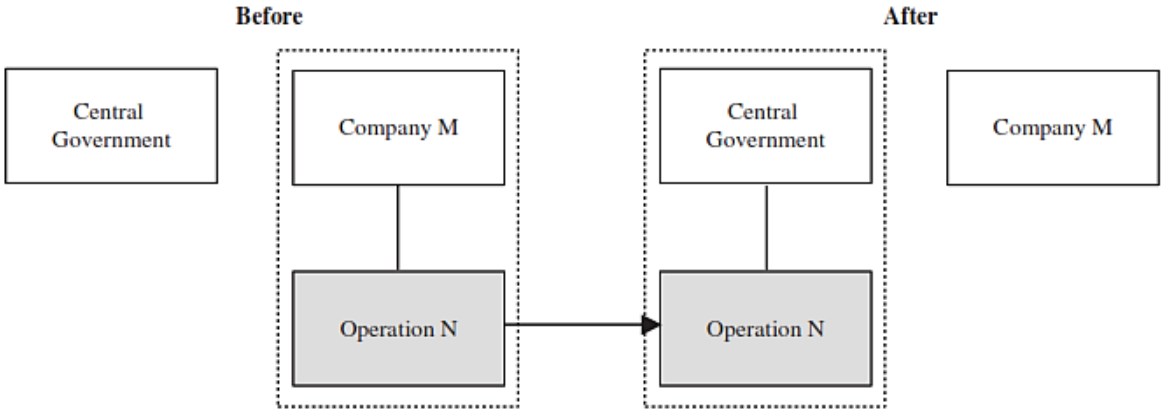
IE91. In considering the indicators relating to consideration, Provincial Government K notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Provincial Government K concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE92. In considering the indicators relating to the decision-making process, Provincial Government K notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an -amalgamation.

IE93. Taking these factors together, Provincial Government K concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 9: Purchase of a Private Sector Operation

IE94. The following diagram illustrates the purchase of a private sector operation by a public sector entity.



IE95. In this scenario, Central Government purchases Operation N from Company M. Central Government pays the market value of Operation N, and Company M acts voluntarily. Following the purchase, Operation N is managed as an arms-length, stand-alone entity.

IE96. The purchase of Operation N is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.

IE97. In this scenario, Central Government gains:

(a) Power over Operation N;

(b) Exposure, or rights, to variable benefits from its involvement with -Operation N; and

(c) The ability to use its power over Operation N to affect the nature or amount of the benefits from its involvement with that operation.

IE98. Central Government concludes that, as a result of the public sector -combination, it has gained control of Operation N. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE99. In considering the economic substance of the public sector combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Operation N. This is inconsistent with the economic substance of an amalgamation. Central Government also notes that the combination has commercial substance, which is suggestive of an acquisition.

IE100. In considering the indicators relating to consideration, Central Government notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Central Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE101. In considering the indicators relating to the decision-making process, Central Government notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE102. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 9: Variation

IE103. In scenario 9, Company M enters into the transaction voluntarily. In this variation, Central Government nationalizes Operation N through a compulsory purchase. The purchase is still effected at the market value of Operation N.

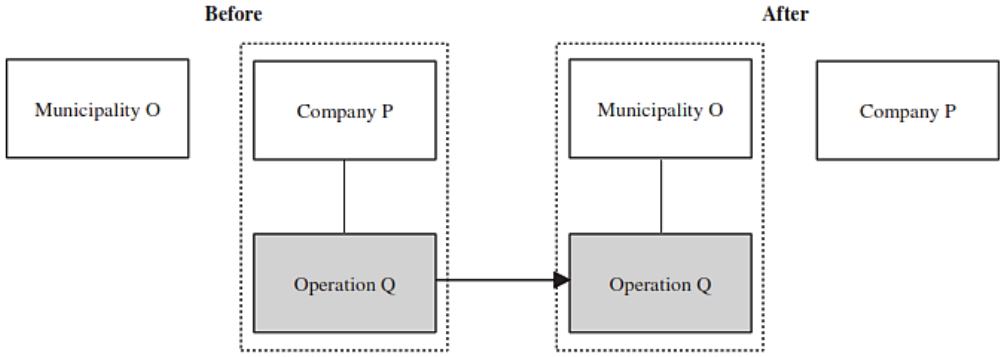
IE104. The change from a voluntary transaction to a compulsory purchase does not affect the assessments of control or the indicators related to consideration.

IE105. In considering the indicators relating to the decision-making process, Central Government notes that Company M does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the public sector combination on Company M provides evidence that the economic substance of the combination is that of an acquisition.

IE106. Consequently, Central Government classifies the public sector combination as an acquisition.

Scenario 10: Bargain Purchase

IE107. The following diagram illustrates a bargain purchase by a public sector entity.



IE108. In this scenario, Municipality O purchases Operation Q from Company P in a bargain purchase. Company P is seeking to sell Operation Q quickly to release cash for its other operations, and is willing to accept a price below the market value of Operation Q for an early sale. In entering into the bargain purchase, Company P acts voluntarily. Following the purchase, Operation Q is managed as an arms-length, stand-alone entity by Municipality O.

IE109. The bargain purchase of Operation Q is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Municipality O considers is whether it has gained control of operations as a result of the combination.

IE110. In this scenario, Municipality O gains:

(a) Power over Operation Q;

(b) Exposure, or rights, to variable benefits from its involvement with Operation Q; and

(c) The ability to use its power over Operation Q to affect the nature or amount of the benefits from its involvement with that operation.

IE111. Municipality O concludes that, as a result of the public sector combination, it has gained control of Operation Q. Municipality O considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE112. In considering the economic substance of the public sector combination, Municipality O notes that the combination results in a controlling entity/controlled entity relationship between Municipality O and Operation Q. This is inconsistent with the economic substance of an amalgamation. Municipality O also notes that the combination has commercial substance (even though the price paid was below the market price of Operation Q), which is suggestive of an acquisition.

IE113. In considering the indicators relating to consideration, Municipality O notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation, even though that price was below market value. Company P voluntarily accepted a lower price for a quick sale, and the purpose of the consideration paid was to provide Company P with the level of compensation for giving up its entitlement to the net assets of Operation Q that it was willing to accept. Municipality O concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE114. In considering the indicators relating to the decision-making process, Municipality O notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE115. Taking these factors together, Municipality O concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 10: Variation

IE116. In scenario 10, Company P enters into the transaction voluntarily. In this variation, Municipality O seizes Operation Q through a compulsory purchase. The purchase is still effected at a price below the market value of Operation Q. Company P would not have sold Operation Q for a price below market value voluntarily.

IE117. The change from a voluntary transaction to a compulsory purchase does not affect the assessment of control.

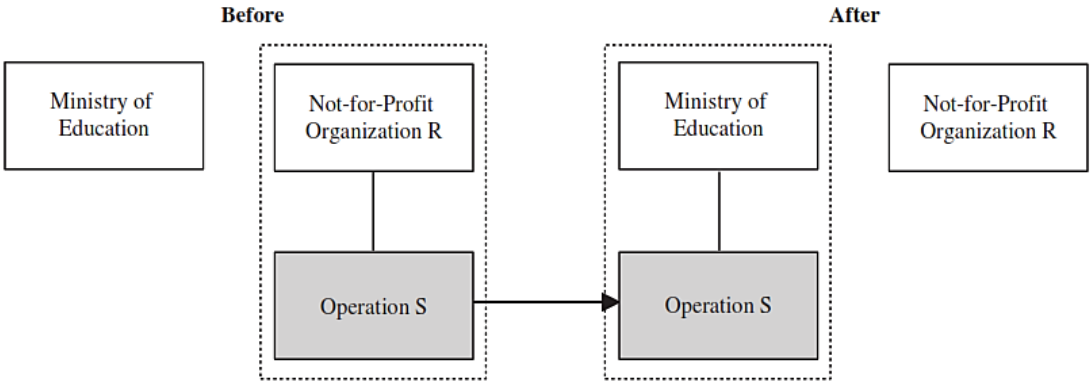
IE118. In considering the indicators relating to consideration, Municipality O notes that the public sector combination includes consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the level of compensation is less than Company P would have accepted voluntarily. Consequently, these indicators provide only weak evidence that the economic substance of the combination is that of an acquisition, and greater reliance is placed on other factors.

IE119. In considering the indicators relating to the decision-making process, Municipality O notes that Company P does not act voluntarily. The fact that Municipality O (a party to the combination) is able to impose the public sector combination on Company P provides evidence that the economic substance of the combination is that of an acquisition.

IE120. Taking all the factors into account, Municipality O classifies the public sector combination as an acquisition.

Scenario 11: Donated Operations

IE121. The following diagram illustrates the receipt of a donated operation by a public sector entity.



IE122. In this scenario, Not-for-Profit Organization R, a charity providing education services, voluntarily transfers Operation S, a school, to the Ministry of Education at no cost. Not-for-Profit Organization R does this because it considers that this will result in improved services to the public, and enable it to meet its objectives.

IE123. The donation of Operation S is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Ministry of Education considers is whether it has gained control of operations as a result of the combination.

IE124. In this scenario, the Ministry of Education gains:

(a) Power over Operation S;

(b) Exposure, or rights, to variable benefits from its involvement with -Operation S; and

(c) The ability to use its power over Operation S to affect the nature or amount of the benefits from its involvement with that operation.

IE125. The Ministry of Education concludes that, as a result of the public sector combination, it has gained control of Operation S. The Ministry of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE126. In considering the economic substance of the public sector combination, the Ministry of Education notes that the combination has commercial substance (even though no price was paid for Operation S), which is suggestive of an acquisition.

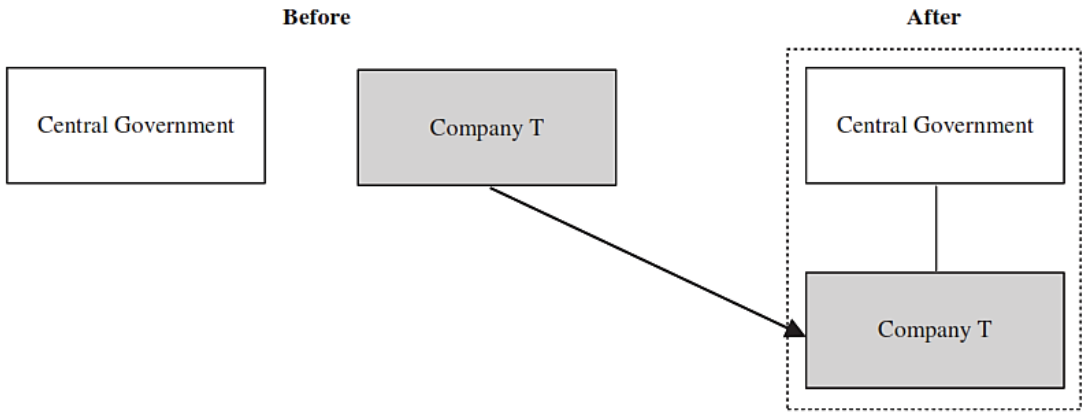
IE127. In considering the indicators relating to consideration, the Ministry of Education notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered those rights. The situation is similar to that of a bargain purchase. In a bargain purchase, a seller may be willing to accept a price below market value where this meets their needs, for example in enabling a quick sale. With a donated operation, the former owner is willing to transfer the operation for no consideration to their preferred counterparty. In this scenario, Not-for-Profit Organization R is willing to transfer Operation S to the Ministry of Education because this will provide improved services to the public. Consequently, the Ministry of Education concludes that the indicators of consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE128. In considering the indicators relating to the decision-making process, the Ministry of Education notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE129. Taking these factors together, the Ministry of Education concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 12: Nationalization of a Private Sector Entity–Forced Seizure

IE130. The following diagram illustrates the nationalization of a private sector entity by a public sector entity by means of a forced seizure.



IE131. In this scenario, Central Government nationalizes Company T through legislation. Central Government does not pay any consideration to the shareholders of Company T. Following the purchase, Company T is managed as an arms-length, stand-alone entity.

IE132. The nationalization of Company T is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.

IE133. In this scenario, Central Government gains:

(a) Power over Company T;

(b) Exposure, or rights, to variable benefits from its involvement with Company T; and

(c) The ability to use its power over Company T to affect the nature or amount of the benefits from its involvement with Company T.

IE134. Central Government concludes that, as a result of the public sector combination, it has gained control of Company T. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE135. In considering the economic substance of the public sector combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Company T. This is inconsistent with the economic substance of an amalgamation. Central Government also notes that, by depriving the former shareholders of their rights to Company T, the combination has commercial substance, which is suggestive of an acquisition.

IE136. In considering the indicators relating to consideration, Central Government notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the former shareholders of Company T have had their entitlements extinguished through compulsion, which provides evidence that the economic substance of the combination is that of an acquisition. Central Government concludes that the indicators

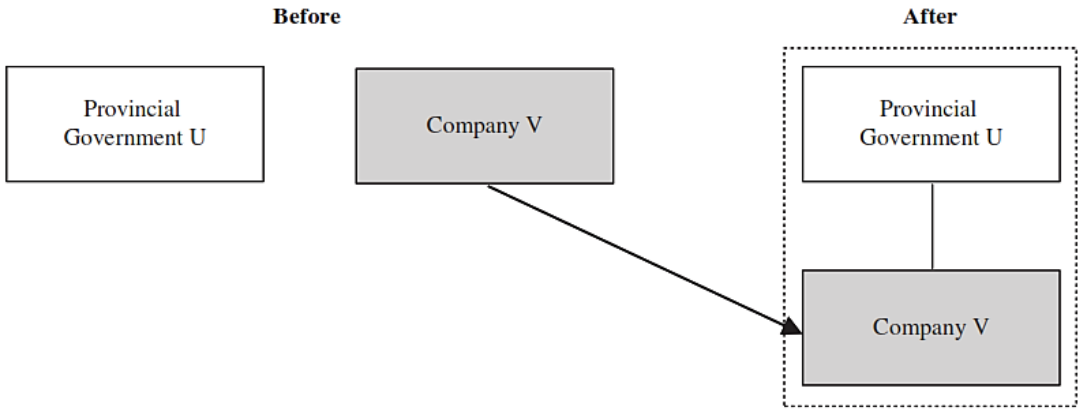
relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE137. In considering the indicators relating to the decision-making process, Central Government notes that Company T does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the public sector combination on Company T provides evidence that the economic substance of the combination is that of an acquisition.

IE138. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 13: Nationalization of a Private Sector Entity–Bailout

IE139. The following diagram illustrates the nationalization of a private sector entity by a public sector entity by means of a bailout.



IE140. In this scenario, Provincial Government U nationalizes Company V through legislation as a result of a bailout. Prior to the nationalization, Company V was in financial distress. Provincial Government U does not pay any consideration to the shareholders of Company V but does assume Company V's net liabilities. Following the purchase, Company V is managed as an arms-length, stand-alone entity.

IE141. The nationalization of Company V is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government U considers is whether it has gained control of operations as a result of the combination.

IE142. In this scenario, Provincial Government U gains:

(a) Power over Company V;

(b) Exposure, or rights, to variable benefits from its involvement with Company V; and

(c) The ability to use its power over Company V to affect the nature or amount of the benefits from its involvement with Company V.

IE143. Provincial Government U concludes that, as a result of the public sector combination, it has gained control of Company V. Provincial Government U considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE144. In considering the economic substance of the public sector combination, Provincial Government U notes that the combination results in a controlling entity/controlled entity relationship between Provincial Government U and Company V. This is inconsistent with the economic substance of an amalgamation. Provincial

Government U also notes that, by assuming the net liabilities of Company V, the combination has commercial substance, which is suggestive of an acquisition.

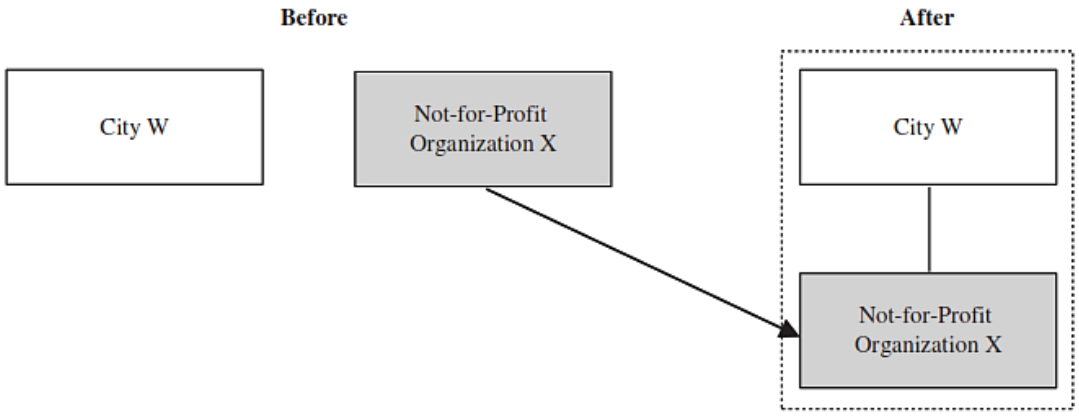
IE145. In considering the indicators relating to consideration, Provincial Government U notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, Company V has net liabilities that are assumed by Provincial Government U as part of the combination. The lack of consideration reflects the fair value of Company V rather than suggesting that the economic substance of the combination is that of an amalgamation. Provincial Government U concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE146. In considering the indicators relating to the decision-making process, Provincial Government U notes that Company V does not act voluntarily. The fact that Provincial Government U (a party to the combination) is able to impose the public sector combination on Company V provides evidence that the economic substance of the combination is that of an acquisition.

IE147. Taking these factors together, Provincial Government U concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 14: Nationalization of a Not-For-Profit Organization–Bailout

IE148. The following diagram illustrates the nationalization of a not-for-profit organization by a public sector entity by means of a bailout.



IE149. In this scenario, City W nationalizes Not-for-Profit Organization X (a charity) as a result of a voluntary bailout. Prior to the nationalization, Not-for-Profit Organization X was in financial distress and approached City W for support. City W assumes Not-for-Profit Organization X's net liabilities. Following the purchase, Not-for-Profit Organization X is managed as an arms-length, stand-alone entity.

IE150. The nationalization of Not-for-Profit Organization X is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question City W considers is whether it has gained control of operations as a result of the combination.

IE151. In this scenario, City W gains:

(a) Power over Not-for-Profit Organization X;

(b) Exposure, or rights, to variable benefits from its involvement with Not-for-Profit Organization X; and

(c) The ability to use its power over Not-for-Profit Organization X to affect the nature or amount of the benefits from its involvement with Not-for-Profit Organization X.

IE152. City W concludes that, as a result of the public sector combination, it has gained control of Not-for-Profit Organization X. City W considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE153. In considering the economic substance of the public sector combination, City W notes that the combination results in a controlling entity/controlled entity relationship between City W and Not-for-Profit Organization X. This is inconsistent with the economic substance of an amalgamation. City W also notes that, by assuming the net liabilities of Not-for-Profit Organization X, the combination has commercial substance, which is suggestive of an acquisition.

IE154. In considering the indicators relating to consideration, City W notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. This is because there is no party with an entitlement to the net assets of Not-for-Profit Organization X (i.e., there is no former owner) as the trustees have no entitlement to the net assets. This would usually provide evidence that the economic substance of the combination is that of an amalgamation. However, in this scenario Not-for-Profit Organization X has net liabilities that are assumed by City W as part of the combination. By assuming the net liabilities, City W relieves the trustees of Not-for-Profit Organization X of the responsibility for settling the liabilities, which is analogous to paying consideration. City W concludes, therefore, that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE155. In considering the indicators relating to the decision-making process, City W notes that Not-for-Profit Organization X voluntarily initiated the combination. City W concludes that the indicators relating to decision-making do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE156. Taking these factors together, City W concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Accounting for Amalgamations

Eliminating Transactions between the Combining Operations - Loans

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

IE157. The following example illustrates the process for eliminating a loan between two combining operations not under common control.

IE158. On 30 June 20X5 Resulting Entity (RE) is formed by an amalgamation of two municipalities, Combining Operation A (COA) and Combining Operation B (COB). Four years previously, COA had provided COB with a ten year, fixed interest rate loan of CU250. Interest on the loan is payable annually, with the principal repayable on maturity.

IE159. COB has recently experienced financial difficulties, and at the amalgamation date was in arrears on making the interest payments. The carrying amount of the financial liability (the amortized cost of the loan) in its financial statements at the amalgamation date is CU260.

IE160. Because of the arrears and the fact that COB was experiencing financial difficulties, COA had impaired the loan. The carrying amount of the financial asset (the loan) in its financial statements at the amalgamation date is CU200.

IE161. At the amalgamation date, RE eliminates the financial asset received from COA and the financial liability assumed from COB and credits components of net assets/equity with CU60, the difference between the carrying amounts of the financial asset and the financial liability associated with the loan.

Eliminating Transactions between the Combining Operations - Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

IE162. The following example illustrates the process for eliminating a transfer between two combining operations not under common control.

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had entered into a binding arrangement with COB to provide COB with a transfer of CU700 to be used in the provision of an agreed number of training courses (i.e., the compliance obligation).

IE164. The transfer must be returned proportionately to the number of training courses not delivered. Immediately prior to the amalgamation, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of the unsatisfied portion of its compliance obligation, in accordance with IPSAS 47, *Revenue*. Upon the transfer of funds, COA recognized a transfer right asset for its right to have COB deliver the training courses. Immediately prior to the amalgamation, based on COB's delivery of the courses up to the amalgamation, COA derecognizes CU350 of the transfer right asset and recognizes the amount as a transfer expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party or an enforceable right to have an external party deliver training courses.

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of IPSAS 40

IE166. The following example illustrates the process for adjusting the carrying amounts of the identifiable assets and liabilities of the combining operations to conform to the resulting entity's accounting policies in an amalgamation under common control.

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model in IPSAS 45, *Property, Plant, and Equipment*. COB has previously adopted an accounting policy of measuring property, plant, and equipment using the current value model in IPSAS 45.

IE168. RE adopts an accounting policy of measuring property, plant and equipment using the current value model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

IE169. On receiving the independent valuation for the items of property, plant, and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant, and equipment as follows, with the corresponding entry being made to components of net assets/equity:

Class of Asset	Carrying Amount (CU)	Valuation (CU)	Adjustment (CU)
Land	17,623	18,410	787
Buildings	35,662	37,140	1,478
Vehicles	1,723	1,605	(118)

IE170. RE also reviews the carrying amounts of the items of property, plant, and equipment previously controlled by COB to ensure the amounts are up to date as at 1 October 20X5. The review confirms the carrying amounts

of the items of property, plant, and equipment previously controlled by COB are up to date and that no adjustment is required.

IE171. RE recognizes the items of property, plant, and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph 48 of IPSAS 45, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of IPSAS 40

IE172. The following example illustrates the accounting for an amalgamation not under common control in which the resulting entity's tax liability is forgiven as part of the terms of the amalgamation.

IE173. On 1 January 20X6 RE is formed by an amalgamation of two public sector entities, COA and COB. The amalgamation is directed by the national government. RE, COA and COB have the same accounting policies; no adjustment to the carrying amounts of the identifiable assets and liabilities of the COA and COB to conform to the resulting entity's accounting policies is required. At the date of the amalgamation, there are no amounts outstanding between COA and COB.

IE174. In its statement of financial position as at 1 January 20X6, RE recognizes and measures the assets and liabilities of COA and COB at their carrying amounts in their respective financial statements as of the amalgamation date:

Statement of Financial Position:	**COA (CU)**	**COB (CU)**	**RE (CU)**
Financial assets	1,205	997	2,202
Inventory	25	42	67
Property, plant and equipment	21,944	18,061	40,005
Identifiable intangible assets	0	3,041	3,041
Financial liabilities	(22,916)	(22,020)	(44,936)
Tax liabilities	(76)	(119)	(195)
Total net assets	182	2	184
Net Assets/Equity	182	2	184

IE175. Suppose that the terms of the amalgamation include the Ministry of Finance (MF) (the tax authority) forgiving RE's tax liability. RE would derecognize the tax liability and make the adjustment to net assets/equity. The statement of financial position as at 1 January 20X6 for RE would be as follows:

Statement of Financial Position:	**RE (CU)**
Financial assets	2,202
Inventory	67
Property, plant and equipment	40,005
Intangible assets	3,041
Financial liabilities	(44,936)
Tax liabilities	0

Total net assets	379
Net Assets/Equity	379

IE176. MF accounts for tax receivable in accordance with IPSAS 47, and would recognize an adjustment for the tax forgiven.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of IPSAS 40

IE177. The following example illustrates the accounting for recognizing and measuring components of net assets/equity in an amalgamation.

IE178. On 1 June 20X4, a new municipality RE is formed by the amalgamation of operations COA and COB relating to two geographical areas of other municipalities, not previously under common control.

IE179. COB has previously performed services for COA for which it was to be paid CU750. Payment was outstanding at the amalgamation date. This transaction formed part of the carrying amount of financial liabilities for COA and part of the carrying amount of financial assets for COB.

IE180. COA has previously adopted an accounting policy of measuring property, plant, and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the current value model. RE has adopted an accounting policy of measuring property, plant, and equipment using the current value model. RE obtains an independent valuation for the items of property, plant, and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant, and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

IE181. The carrying amounts of the assets, liabilities and components of net assets/equity transferred are summarized below. Adjustments to eliminate transactions between COA and COB (see paragraph 22), and to conform the carrying amounts to the resulting entity›s accounting policies are also shown.

	COA (CU)	COB (CU)	Elimination Adjustments (CU)	Accounting Policy Adjustments (CU)	RE Opening Balance (CU)
Financial Assets	11,248	17,311	(750)		27,809
Inventory	1,072	532			1,604
Property, plant and equipment	5,663	12,171		5,750	23,584
Intangible assets	0	137			137
Financial liabilities	(18,798)	(20,553)	750		(38,601)
Total net assets/ (liabilities)	(815)	9,598		5,750	14,533
Revaluation surplus	0	6,939		5,750	12,689
Accumulated surpluses or deficits	(815)	2,659			1,844
Total net assets/equity	(815)	9,598	0	5,750	14,533

IE182. In accordance with paragraphs 37–39 of IPSAS 40, RE may present net assets/equity as either a single opening balance of CU14,533 or as the separate components shown above.

IE183. The other municipalities that, prior to the amalgamation, controlled COA and COB would derecognize the assets, liabilities and components of net assets/equity transferred to RE in accordance with other IPSAS.

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of IPSAS 40.

IE184. If the initial accounting for an amalgamation is not complete at the end of the financial reporting period in which the amalgamation occurs, paragraph 40 of IPSAS 40 requires the resulting entity to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 43 of IPSAS 40 requires the resulting entity to recognize such adjustments as if the accounting for the amalgamation had been completed at the amalgamation date. Measurement period adjustments are not included in surplus or deficit.

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the current value model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

IE186. In its financial statements for the year ended 31 December 20X4, RE retrospectively adjusts the 20X3 prior year information as follows:

(a) The carrying amount of the land as of 31 December 20X3 is increased by CU10,000. As the land has an indefinite life, no depreciation is charged.

(b) The carrying amount of the buildings as of 31 December 20X3 is increased by CU89,500. That adjustment is measured as the valuation adjustment at the amalgamation date of CU90,000 less the additional depreciation that would have been recognized if the asset's value at the amalgamation date had been recognized from that date (CU500 for one months' depreciation).

(c) An adjustment of CU100,000 is recognized in net assets/equity as of 31 December 20X3.

(d) Depreciation expense for 20X3 is increased by CU500.

IE187. In accordance with paragraph 56 of IPSAS 40, RE discloses:

(a) In its 20X3 financial statements, that the initial accounting for the amalgamation has not been completed because the valuation of land and buildings previously controlled by COB has not yet been received.

(b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, RE discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by

CU99,500 (CU100,000 at the amalgamation date), an increase in depreciation expense of CU500 and an increase in net assets/equity of CU100,000.

Subsequent Measurement of a Transfer Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

Illustrating the Consequences of Applying the Requirements in Paragraphs 48 and AG61–AG63 of IPSAS 40.

IE188. The following example illustrates the subsequent accounting for a transfer received by a combining operation on the basis of criteria that may change as a result of an amalgamation.

IE189. On 1 January 20X3, a national government provides an annual grant to those municipalities where the average household income is below a threshold. On 1 June 20X3, RE, a new municipality, is formed by the amalgamation of two existing municipalities, COA and COB. COA had previously received a grant of CU1,000, based on its average household income. COB has received no grant as its average household income was above the threshold.

IE190. Following the amalgamation on 1 June 20X3, the average household income of RE is above the threshold that the government had set when allocating grants.

IE191. On 1 July 20X3, the national government requires RE to repay a portion (CU200) of the grant previously paid to COA. RE recognizes a liability and an expense of CU200 on 1 July 20X3.

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40.

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference	
54(a)–(c)	On 30 June 20X2 RE was formed by an amalgamation of the former municipalities COA and COB. Neither COA nor COB gained control of RE in the amalgamation. The amalgamation was mutually agreed by COA and COB, and enacted by the Government through legislation. The amalgamation aims to reduce costs through economies of scale, and to provide improved services to residents.
54(d)	**Amounts recognized for each major class of assets and liabilities transferred as at 30 June 20X2**

	CU
Financial assets	1,701
Inventory	5
Property, plant and equipment	74,656
Intangible assets	42
Financial liabilities	(2,001)
Total net assets	74,403

54(e) The following adjustments have been made to the carrying amounts of assets and liabilities recorded by COA and COB as at 30 June 20X2 prior to the amalgamation:

Paragraph reference		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property, plant, and equipment recorded by COA to measure the items using the current value model	12,116	17,954	30,070

54(f)

Amounts recognized in Net assets/equity as at 30 June 20X2

	COA (CU)	COB (CU)	Adjustment (CU)	RE (CU)
Revaluation surplus	0	18,332	17,954	36,286
Accumulated surpluses or deficits	12,047	26,070	0	38,117
Total net assets/equity	12,047	44,402	17,954	74,403

54(h)

At the time these financial statements were authorized for issue, the last reporting date for COA and COB was 31 December 20X1. The revenue and expense, and surplus or deficit for COA and COB from 1 January 20X2 to the amalgamation date (30 June 20X2), and the amounts reported by COA and COB for each major class of assets and liabilities, and for components of net assets/equity, is shown below:

		COA (CU)	COB (CU)
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from compliance obligations in binding arrangements	2,681	25,377
	Transfers from other government entities	32,615	19,345
	Total revenue	80,509	115,091

54(h)(i)	**Expenses**		
	Wages, salaries and employee benefits	(51,263)	(68,549)
	Grants and other transfer payments	(18,611)	(26,445)
	Supplies and consumables used	(7,545)	(13,391)
	Depreciation expense	(677)	(2,598)
	Impairment of property, plant and equipment	(17)	(33)
	Finance costs	(2)	(3)
	Total expenses	(78,115)	(111,019)
54(h)(i)	**Surplus or (deficit) for the period 1 January 20X2 to 30 June 20X2**	2,394	4,072
54(h)(ii)	**Assets as at 30 June 20X2**		
	Financial assets	822	904
	Inventory	0	5
	Property, plant and equipment	12,116	44,586
	Intangible assets	42	0
	Total Assets	12,980	45,495
54(h)(ii)	**Liabilities as at 30 June 20X2**		
	Financial liabilities	(933)	(1,093)
	Total liabilities	(933)	(1,093)
54(h)(iii)	**Net assets as at 30 June 20X2**	12,047	44,402
	Net assets/equity as at 30 June 20X2		
	Revaluation surplus	0	18,332
	Accumulated surpluses or deficits	12,047	26,070
	Total net assets/equity as at 30 June 20X2	12,047	44,402

In considering the disclosures related to an amalgamation, an entity may find it helpful to refer to the discussion of materiality in IPSAS 1, *Presentation of Financial Statements*.

Accounting for Acquisitions

Reverse Acquisitions

Illustrating the Consequences of Recognizing a Reverse Acquisition by Applying Paragraphs AG66–AG71 of IPSAS 40

IE193. This example illustrates the accounting for a reverse acquisition in which Entity B, the legal controlled entity, acquires Entity A, the entity issuing equity instruments and therefore the legal controlling entity, in a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.

IE194. The statements of financial position of Entity A and Entity B immediately before the acquisition are:

	Entity A (legal controlling entity, accounting acquired operation) CU	Entity B (legal controlled entity, accounting acquirer) CU
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Accumulated surplus or deficit	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

IE195. This example also uses the following information:

(a) On 30 September 20X6 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. Entity B's sole shareholder, a government, exchanges its shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

(b) The fair value of each ordinary share of Entity B at 30 September 20X6 is CU40. The quoted market price of Entity A's ordinary shares at that date is CU16.

(c) The fair values of Entity A's identifiable assets and liabilities at 30 September 20X6 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30 September 20X6 is CU1,500.

Calculating the Fair Value of the Consideration Transferred

IE196. As a result of Entity A (legal controlling entity, accounting acquired operation) issuing 150 ordinary shares, Entity B's shareholder (the government) owns 60 percent of the issued shares of the combined entity (i.e., 150 of 250 issued shares). The remaining 40 percent are owned by Entity A's shareholders. If the acquisition had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for

their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholder (the government) would then own 60 of the 100 issued shares of Entity B—60 percent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is CU1,600 (40 shares with a fair value per share of CU40).

IE197. The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred than the fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of CU16.

Measuring Goodwill

IE198. Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognized identifiable assets and liabilities, as follows:

	CU	CU
Consideration effectively transferred		1,600
Net recognized values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated Statement of Financial Position at 30 September 20X6

IE199. The consolidated statement of financial position immediately after the acquisition is:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit	1,400
Issued equity	
250 ordinary shares [CU600 + CU1,600]	2,200
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE200. The amount recognized as issued equity interests in the consolidated financial statements (CU2,200) is determined by adding the issued equity of the legal controlled entity immediately before the acquisition

(CU600) and the fair value of the consideration effectively transferred (CU1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal controlling entity, including the equity interests issued by the legal controlling entity to effect the combination.

Non-Controlling Interest

IE201. Assume the same facts as above, except that Entity B has more than one shareholder, and that only 56 of Entity B's 60 ordinary shares are exchanged. Because Entity A issues 2.5 shares in exchange for each ordinary share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 percent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquired operation, is calculated by assuming that the combination had been effected by Entity B issuing additional ordinary shares to the shareholders of Entity A in exchange for their ordinary shares in Entity A. That is because Entity B is the accounting acquirer, and paragraph AG67 of IPSAS 40 requires the acquirer to measure the consideration exchanged for the accounting acquired operation.

IE202. In calculating the number of shares that Entity B would have had to issue, the non-controlling interest is excluded from the calculation. The majority shareholder (the government) owns 56 shares of Entity B. For that to represent a 58.3 percent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholder (the government) would then own 56 of the 96 issued shares of Entity B and, therefore, 58.3 percent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquired operation, is CU1,600 (i.e., 40 shares, each with a fair value of CU40). That is the same amount as when Entity B's sole shareholder tenders all 60 of its ordinary shares for exchange. The recognized amount of the group's interest in Entity A, the accounting acquired operation, does not change if some of Entity B's shareholders do not participate in the exchange.

IE203. The non-controlling interest is represented by the four shares of the total 60 shares of Entity B that are not exchanged for shares of Entity A. Therefore, the non-controlling interest is 6.7 percent. The non-controlling interest reflects the proportionate interest of the non-controlling shareholders in the pre-combination carrying amounts of the net assets of Entity B, the legal controlled entity. Therefore, the consolidated statement of financial position is adjusted to show a non-controlling interest of 6.7 percent of the pre-combination carrying amounts of Entity B's net assets (i.e., CU134 or 6.7 percent of CU2,000).

IE204. The consolidated statement of financial position at 30 September 20X6, reflecting the non-controlling interest, is as follows:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit [CU1,400 × 93.3 percent]	1,306

	CU
Issued equity	
240 ordinary shares [CU560 + CU1,600]	2,160
Non-controlling interest	134
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE205. The non-controlling interest of CU134 has two components. The first component is the reclassification of the non-controlling interest's share of the accounting acquirer's retained earnings immediately before the acquisition (CU1,400 × 6.7 percent or CU93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity (CU600 × 6.7 percent or CU40.20).

Identifiable Intangible Assets in an Acquisition

Illustrating the Consequences of Applying Paragraphs 64–68 and AG75–AG84 of IPSAS 40

IE206. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.

IE207. Intangible assets identified as having a 'binding arrangement' basis are those that arise from binding arrangements (including rights from contracts or other legal rights). Those designated as having a 'no binding arrangement' basis do not arise from binding arrangements but are separable. Intangible assets identified as having a binding arrangement basis might also be separable but separability is not a necessary condition for an asset to meet the binding arrangement criterion.

Marketing-Related Intangible Assets

IE208. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	Basis
Trademarks, trade names, service marks, collective marks and certification marks	Binding arrangement
Trade dress (unique color, shape or package design)	Binding arrangement
Newspaper mastheads	Binding arrangement
Internet domain names	Binding arrangement
Non-competition agreements	Binding arrangement

Trademarks, Trade Names, Service Marks, Collective Marks and Certification Marks

IE209. Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

IE210. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in an acquisition is an intangible asset that meets the binding arrangement criterion. Otherwise, a trademark or other mark

acquired in an acquisition can be recognized separately from goodwill if the separability criterion is met, which normally it would be.

IE211. The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. IPSAS 40 does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet Domain Names

IE212. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an acquisition meets the binding arrangement criterion.

Service User or Customer-Related Intangible Assets

IE213. Examples of service user or customer-related intangible assets are:

Class	**Basis**
Lists of users of a service	No binding arrangement
Order or production backlog	Binding arrangement
Customer binding arrangements and the related customer relationships	Binding arrangement
Customer relationships arising through means other than binding arrangements	No binding arrangement

Lists of Users of a Service

IE214. A list of users of a service consists of information about service users, such as their names and contact information. A list of users of a service also may be in the form of a database that includes other information about the users, such as their service use histories and demographic information. A list of users of a service does not usually arise from a binding arrangement (including rights from contracts or other legal rights). However, lists of users of a service are often leased or exchanged. Therefore, a list of users of a service acquired in an acquisition normally meets the separability criterion.

Order or Production Backlog

IE215. An order or production backlog arises from binding arrangements such as purchase or sales orders. An order or production backlog acquired in an acquisition meets the binding arrangement criterion even if the purchase or sales orders can be cancelled.

Customer Binding Arrangements and the Related Customer Relationships

IE216. If an entity establishes relationships with its customers through binding arrangements, those customer relationships arise from binding arrangement rights. Therefore, customer binding arrangements and the related customer relationships acquired in an acquisition meet the binding arrangement criterion, even if confidentiality or other terms of the binding arrangement prohibit the sale or transfer of a binding arrangement separately from the acquired operation.

IE217. A customer binding arrangement and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.

IE218. A customer relationship exists between an entity and its customer if (a) the -entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the binding arrangement criterion if an entity has a practice of establishing binding arrangements with its customers, regardless of whether a binding arrangement exists at the acquisition date. Customer relationships may also arise through means other than binding -arrangements, such as through regular contact by sales or service representatives.

IE219. As noted in paragraph IE215, an order or a production backlog arises from binding arrangements such as purchase or sales orders and is therefore considered a binding arrangement right. Consequently, if an entity has relationships with its customers through these types of binding arrangements, the customer relationships also arise from binding arrangement rights and therefore meet the binding arrangement criterion.

Examples

IE220. The following examples illustrate the recognition of customer binding arrangement and customer relationship intangible assets acquired in an acquisition.

(a) Acquirer Entity (AE) acquires Target Entity (TE) in an acquisition on 31 December 20X5. TE has a five-year agreement to supply goods to Customer. Both TE and AE believe that Customer will renew the agreement at the end of the current binding arrangement. The agreement is not separable.

The agreement, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, not only the agreement itself but also TE's customer relationship with Customer meet the binding arrangement criterion.

(b) AE acquires TE in an acquisition on 31 December 20X5. TE manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TE. TE has a binding arrangement with Customer to be its exclusive provider of sporting goods but has no binding arrangement for the supply of electronics to Customer. Both TE and AE believe that only one overall customer relationship exists between TE and Customer.

The binding arrangement to be Customer's exclusive supplier of sporting goods, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, the customer relationship with Customer meets the binding arrangement criterion. Because TE has only one customer relationship with Customer, the fair value of that relationship incorporates assumptions about TE's relationship with Customer related to both sporting goods and electronics. However, if AE determines that the customer relationships with Customer for sporting goods and for electronics are separate from each other, AE would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset.

(c) AE acquires TE in an acquisition on 31 December 20X5. TE does business with its customers solely through purchase and sales orders. At 31 December 20X5, TE has a backlog of customer purchase orders from 60 percent of its customers, all of whom are recurring customers. The other 40 percent of TE's customers are also recurring customers. However, as of 31 December 20X5, TE has no open purchase orders or other binding arrangements with those customers.

Regardless of whether they are cancellable or not, the purchase orders from 60 percent of TE's customers meet the binding arrangement criterion. Additionally, because TE has established its relationship with 60 percent of its customers through binding arrangements, not only the purchase orders but also TE's customer relationships meet the binding arrangement criterion. Because TE has a practice of establishing binding arrangements with the remaining 40 percent of its customers, its

relationship with those customers also arises through binding arrangement rights and therefore meets the binding arrangement criterion even though TE does not have binding arrangements with those customers at 31 December 20X5.

(d) AE acquires TE, an insurer, in an acquisition on 31 December 20X5. TE has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TE establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the binding arrangement criterion. IPSAS 26, *Impairment of Cash-Generating Assets* and IPSAS 31, *Intangible Assets* apply to the customer relationship intangible asset.

Customer Relationships Arising through Means Other than Binding Arrangements

IE221. A customer relationship acquired in an acquisition that does not arise from a binding arrangement may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of customer relationship arising through means other than binding arrangements would provide evidence that the relationship is separable.

Artistic-Related Intangible Assets

IE222. Examples of artistic-related intangible assets are:

Class	**Basis**
Plays, operas and ballets	Binding arrangement
Books, magazines, newspapers and other literary works	Binding arrangement
Musical works such as compositions, song lyrics and advertising jingles	Binding arrangement
Pictures and photographs	Binding arrangement
Video and audio-visual material, including motion pictures or films, music videos and television programs	Binding arrangement

IE223. Artistic-related assets acquired in an acquisition are identifiable if they arise from binding arrangements (including rights from contracts) or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognizing a copyright intangible asset and any related assignments or license agreements as a single asset, provided they have similar useful lives.

Binding Arrangement-Based Intangible Assets

IE224. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of a binding arrangement with a customer are unfavorable relative to market terms), the acquirer recognizes it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

Class	**Basis**
Licensing, royalty and standstill agreements	Binding arrangement
Advertising, construction, management, service or supply binding arrangements	Binding arrangement
Construction permits	Binding arrangement

Class	Basis
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

Servicing Binding Arrangements, Such as Mortgage Servicing Binding Arrangements

IE225. Binding arrangements to service financial assets are one type of binding arrangement-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

(a) When separated in the binding arrangement from the underlying financial asset by sale or securitization of the assets with servicing retained;

(b) Through the separate purchase and assumption of the servicing.

IE226. If mortgage loans, credit card receivables or other financial assets are -acquired in an acquisition with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Binding Arrangements for Employment

IE227. Binding arrangements for employment that are beneficial binding arrangements from the perspective of the employer because the pricing of those binding arrangements is favorable relative to market terms are one type of binding arrangement-based intangible asset.

Use Rights

IE228. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are binding arrangement-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-Based Intangible Assets

IE229. Examples of technology-based intangible assets are:

Class	Basis
Patented technology	Binding arrangement
Computer software and mask works	Binding arrangement
Unpatented technology	No binding arrangement
Databases, including title plants	No binding arrangement
Trade secrets, such as secret formulas, processes and recipes	Binding arrangement

Computer Software and Mask Works

IE230. Computer software and program formats acquired in an acquisition that are protected legally, such as by patent or copyright, meet the binding arrangement criterion for identification as intangible assets.

IE231. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an acquisition meet the binding arrangement criterion for identification as intangible assets.

Databases, Including Title Plants

IE232. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an acquisition and protected by copyright meets the binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as lists of service users, or specialized information, such as scientific data or credit information. -Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an acquisition meets the separability criterion.

IE233. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an acquisition meet the separability criterion.

Trade Secrets, Such as Secret Formulas, Processes and Recipes

IE234. A trade secret is 'information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.'[3] If the future economic benefits from a trade secret acquired in an acquisition are legally protected, that asset meets the binding arrangement criterion. Otherwise, trade secrets acquired in an acquisition are identifiable only if the separability criterion is met, which is likely to be the case.

Measurement of Non-Controlling Interest (NCI) in an Acquisition

Illustrating the Consequences of Applying Paragraph 73 of IPSAS 40.

IE235. The following examples illustrate the measurement of components of NCI at the acquisition date in an acquisition.

Measurement of NCI Including Preference Shares

IE236. TE has issued 100 preference shares, which are classified as equity. The preference shares have a nominal value of CU1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TE, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of CU1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.

IE237. AE acquires all ordinary shares of TE. The transaction gives AE control of TE, and an analysis of the economic substance of the combination using the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 confirms the transaction is an acquisition. The acquisition-date fair value of the preference shares is CU120.

IE238. Paragraph 73 of IPSAS 40 states that for each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair

[3] Melvin Simensky and Lanning Bryer, The New Role of Intellectual Property in Commercial Transactions (New York: John Wiley & Sons, 1998), page 293.

value or the present ownership instruments' proportionate share in the acquired operation's recognized amounts of the identifiable net assets. All other components of non-controlling interest must be measured at their acquisition-date fair value, unless another measurement basis is required by IPSAS.

IE239. The non-controlling interests that relate to TE's preference shares do not qualify for the measurement choice in paragraph 73 of IPSAS 40 because they do not entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The acquirer measures the preference shares at their acquisition-date fair value of CU120.

First Variation

IE240. Suppose that upon liquidation of TE, the preference shares entitle their holders to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that the acquisition-date fair value of the preference shares is now CU160 and that the proportionate share of TE's recognized amounts of the identifiable net assets that is attributable to the preference shares is CU140.

IE241. The preference shares qualify for the measurement choice in paragraph 73 of IPSAS 40. AE can choose to measure the preference shares either at their acquisition-date fair value of CU160 or at their proportionate share in the acquired operation's recognized amounts of the identifiable net assets of CU140.

Second Variation

IE242. Suppose also that TE has issued share options as remuneration to its employees. The share options are classified as equity and are vested at the acquisition date. They do not represent present ownership interest and do not entitle their holders to a proportionate share of TE's net assets in the event of liquidation. The fair value of the share options in accordance with the relevant international or national accounting standard dealing with share-based payments at the acquisition date is CU200. The share options do not expire on the acquisition date and AE does not replace them.

IE243. Paragraph 73 of IPSAS 40 requires such share options to be measured at their acquisition-date fair value, unless another measurement basis is required by IPSAS. Paragraph 84 of IPSAS 40 states that the acquirer shall measure an equity instrument related to share-based payment transactions of the acquired operation in accordance with the relevant international or national accounting standard dealing with share-based payments.

IE244. The acquirer measures the non-controlling interests that are related to the share options at their fair value of CU200.

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85–AG87 of IPSAS 40

IE245. The following example illustrates the accounting for an acquisition in which part of the acquired operation's tax liability is forgiven as part of the terms of the acquisition.

IE246. On 1 January 20X4 AE, a government ministry acting on behalf of the government, acquires TE, a private entity in exchange for cash of CU575. As a result of the acquisition, AE expects to reduce costs through economies of scale. The fair value of the assets acquired and liabilities assumed are as -follows:

Assets acquired and liabilities assumed:	**CU**
Financial assets	265
Inventory	5
Property, plant and equipment	640

Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(40)
Total net assets	562

IE247. AE recognizes goodwill of CU13, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU562).

IE248. Suppose that as part of the terms of the acquisition, the government requires MF (the tax authority) to forgive 50 percent of TE's tax liability. The fair value of the assets acquired and liabilities assumed would now be as follows:

Assets acquired and liabilities assumed:	**CU**
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(20)
Total net assets	582

IE249. AE recognizes a gain of CU7, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU582). AE would account for the remaining tax liability in accordance with the relevant international or national accounting standard dealing with income taxes.

IE250. MF accounts for tax receivable in accordance with IPSAS 47 and would recognize an adjustment for the tax forgiven.

Gain on a Bargain Purchase in an Acquisition

Illustrating the Consequences of Recognizing and Measuring a Gain from a Bargain Purchase in an Acquisition by Applying Paragraphs 85–90 of IPSAS 40

IE251. The following example illustrates the accounting for an acquisition in which a gain on a bargain purchase is recognized.

IE252. On 1 January 20X5 AE acquires 80 percent of the equity interests of TE, a private entity, in exchange for cash of CU150. Because the former owners of TE needed to dispose of their investments in TE by a specified date, they did not have sufficient time to market TE to multiple potential buyers. The management of AE initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of IPSAS 40. The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AE engages an independent consultant, who determines that the fair value of the 20 percent non-controlling interest in TE is CU42.

IE253. The amount of TE's identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TE. Therefore, AE reviews the -procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TE and the consideration transferred. After that review, AE decides that the procedures and resulting measures were appropriate. AE measures the gain on its purchase of the 80 percent interest as follows:

			CU
Amount of the identifiable net assets acquired (CU250 – CU50)			200
Less:	Fair value of the consideration transferred for AE's 80 percent interest in TE; plus	150	
	Fair value of non-controlling interest in TE	42	
			192
Gain on bargain purchase of 80 percent interest			8

IE254. AE would record its acquisition of TE in its consolidated financial statements as follows:

	CU	CU
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TE		42

IE255. If the acquirer chose to measure the non-controlling interest in TE on the basis of its proportionate interest in the identifiable net assets of the acquired operation, the recognized amount of the non-controlling interest would be CU40 (CU200 × 0.20). The gain on the bargain purchase then would be CU10 (CU200 – (CU150 + CU40)).

Measurement Period in an Acquisition

Illustrating the Consequences of Applying Paragraphs 103–108 of IPSAS 40.

IE256. If the initial accounting for an acquisition is not complete at the end of the financial reporting period in which the combination occurs, paragraph 103 of IPSAS 40 requires the acquirer to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 107 of IPSAS 40 requires the acquirer to recognize such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.

IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorized for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognized a provisional fair value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of 31 -December 20X7 is increased by CU9,500. That adjustment is measured as the fair value adjustment at the acquisition date of CU10,000

less the additional depreciation that would have been recognized if the asset's fair value at the acquisition date had been recognized from that date (CU500 for three months' depreciation).

(b) The carrying amount of goodwill as of 31 December 20X7 is -decreased by CU10,000.

(c) Depreciation expense for 20X7 is increased by CU500.

IE259. In accordance with paragraph 124 of IPSAS 40, AE discloses:

(a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.

(b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Determining what is Part of the Acquisition Transaction

Settlement of a Pre-Existing Relationship – loan

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE260. AE provides TE with a five year, fixed rate loan of CU100. Interest is payable quarterly, with the principal repaid on maturity. With two years remaining under the loan agreement, AE acquires TE.

IE261. Included in the total fair value of TE is a CU90 financial liability for the fair value of the loan arrangement with AE. At the acquisition date, the carrying amount of the corresponding financial asset in AE's financial statements (the amortized cost of the loan) is CU100.

IE262. In this example, AE calculates a loss of CU10. The loss is calculated as the difference between the fair value of the financial liability assumed and carrying amount of the corresponding financial asset previously recognized by AE. In its consolidated financial statements, AE will eliminate its financial asset (CU100) against the fair value of TE's financial liability (CU90), the difference representing the loss to AE.

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE entered into a binding arrangement with TE to provide TE with a transfer of CU800 to be used in the provision of an agreed number of training courses to the employees of TE (i.e., the compliance obligation).

IE264. The transfer was subject to a compliance obligation that the transfer would be returned proportionately to the number of training courses not delivered. Immediately prior to the acquisition, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of the unsatisfied portion of its compliance obligation, in accordance with IPSAS 47. Upon the transfer of funds, AE recognized a transfer right asset for its right to have TE deliver the training courses. Immediately prior to the acquisition, based on TE's performance to date, AE derecognizes CU200 of the transfer right asset and recognizes the amount as a transfer expense.

IE265. In this example, AE eliminates the liability of CU600 against the transfer right asset of CU600, as there is no longer an obligation owed to a third party or the enforceable right to have an external party deliver training course.

IE266. [Deleted]

Settlement of a Pre-Existing Relationship – Supply Contract

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE267. AE purchases electronic components from TE under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AE could purchase similar electronic components from another supplier. The supply contract allows AE to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AE pays CU50 million to acquire TE, which is the fair value of TE based on what other market participants would be willing to pay.

IE268. Included in the total fair value of TE is CU8 million related to the fair value of the supply contract with AE. The CU8 million represents a CU3 million component that is 'at market' because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavorable to AE because it exceeds the price of current market transactions for similar items. TE has no other identifiable assets or liabilities related to the supply contract, and AE has not recognized any assets or liabilities related to the supply contract before the acquisition.

IE269. In this example, AE calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the acquisition. The CU3 million 'at-market' component of the contract is part of goodwill.

IE270. Whether AE had recognized previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognized as a gain or loss for the effective settlement of the relationship. Suppose that IPSAS had required AE to recognize a CU6 million liability for the supply contract before the acquisition. In that situation, AE recognizes a CU1 million settlement gain on the contract in surplus or deficit at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognized). In other words, AE has in effect settled a recognized liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

Contingent Payments to Employees in an Acquisition

Illustrating the Consequences of Applying Paragraphs 109–110, AG98 and AG102– AG103 of IPSAS 40.

IE271. TE appointed a candidate as its new CEO under a ten-year contract. The contract required TE to pay the candidate CU5 million if TE is acquired before the contract expires. AE acquires TE eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

IE272. In this example, TE entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AE or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.

IE273. In other circumstances, TE might enter into a similar agreement with CEO at the suggestion of AE during the negotiations for the acquisition. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AE or the combined entity rather than TE or its former owners. In that situation, AE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or an Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

Illustrating the Consequences of Applying Paragraphs 114 and AG109–AG111 of IPSAS 40.

IE274. The following example illustrates the subsequent accounting for a transfer received by an acquirer on the basis of criteria that may change as a result of an acquisition.

IE275. On 1 January 20X6, a national government provides an annual grant to those municipalities where their revenue per head of population is below a threshold. On 1 June 20X3 AE, a municipality, acquires TE, a shopping complex that will generate revenue for AE. AE had previously received a grant of CU500, based on its revenue per head of population.

IE276. As a result of its acquisition of TE on 1 June 20X3, the revenue per head of population of AE increases above the threshold that the government had set when allocating grants.

IE277. On 1 July 20X3, the national government requires AE to repay a portion (CU100) of the grant previously received by AE. AE recognizes a liability and an expense of CU100 on 1 July 20X3.

Disclosure Requirements Relating to Acquisitions

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of IPSAS 40.

IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is a public sector entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference	
120(a)–(d)	On 30 June 20X2 AE acquired 75 percent of the ordinary shares of TE and obtained control of TE. An analysis of the economic substance of the combination confirms the transaction is an acquisition. TE is a provider of medical supplies. As a result of the acquisition, AE is expected to deliver improved healthcare to its residents. It also expects to reduce costs through economies of scale.
120(e)	The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AE and TE.
120(k)	None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for TE and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TE.

At 30 June 20X2

	Consideration	**CU**
120(f)(i)	Cash	11,000
120(f)(iii); 120(g)(i)	Contingent consideration arrangement	1,000
120(f)	**Total consideration transferred**	12,000

Paragraph reference		
120(m)	**Acquisition-related costs** (included in selling, general and administrative expenses in AE's statement of comprehensive income for the year ended 31 December 20X2)	1,250
120(i)	**Recognized amounts of identifiable assets acquired and liabilities assumed**	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
120(p)(i)	**Non-controlling interest in TE**	(3,300)
	Goodwill	2,500
		12,000

120(f)(iii)
120(g)
124(b)

The contingent consideration arrangement requires AE to pay the former owners of TE 5 percent of the revenues of XE, an unconsolidated equity investment owned by TE, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).

The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.

The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying an income approach. The fair value measurement is based on significant inputs that are not observable in the market, which IPSAS 46, *Measurement*, refers to as Level 3 inputs. Key assumptions include a discount rate range of 20–25 percent and assumed probability-adjusted revenues in XE of CU10,000–20,000.

As of 31 December 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.

120(h)

The fair value of the financial assets acquired includes receivables with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.

124(a)

The fair value of the acquired identifiable intangible -assets of CU3,300 is provisional pending receipt of the final valuations for those assets.

120(j)
124(c)
IPSAS 19.97, 98

A contingent liability of CU1,000 has been recognized for expected warranty claims on products sold by TE during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be incurred

Paragraph reference	
	by the end of 20X4. The potential undiscounted amount of all future payments that AE could be required to make under the warranty arrangements is estimated to be between CU500 and CU1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognized for the liability or any change in the range of outcomes or assumptions used to develop the estimates.
120(p)	The fair value of the non-controlling interest in TE, a listed entity, was measured using the closing market price of TE's ordinary shares on the acquisition date.
120(r)(i)	The revenue included in the consolidated statement of comprehensive income since 30 June 20X2 contributed by TE was CU4,090. TE also contributed profit of CU1,710 over the same period.
120(r)(ii)	Had TE been consolidated from 1 January 20X2 the consolidated statement of comprehensive income would have included revenue of CU27,670 and profit of CU12,870.

In considering the disclosures related to an acquisition, an entity may find it helpful to refer to the discussion of materiality in IPSAS 1.

COMPARISON WITH IFRS 3

The acquisition accounting requirements in IPSAS 40 are drawn primarily from IFRS 3 (issued in 2004, including amendments up to December 31, 2015). The main differences between these requirements in IPSAS 40 and IFRS 3 are as follows:

- IFRS 3 includes guidance on determining the acquirer. In IPSAS 40, this is addressed when classifying a public sector combination as either an amalgamation or an acquisition.
- IPSAS 40 contains additional guidance on public sector specific transactions, for example tax forgiveness.
- IPSAS 40 uses different terminology, in certain instances, from IFRS 3. The most significant examples are the use of the terms “public sector combination”, “operation”, and “acquired operation”. The equivalent terms in IFRS 3 are “business combination”, “business” and “acquiree”.

IPSAS 41, *FINANCIAL INSTRUMENTS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 9, *Financial Instruments*, and International Financial Reporting Interpretations Committee (IFRIC®) Interpretation 16 (IFRIC 16), *Hedges of a Net Investment in a Foreign Operation*, and IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* published by the International Accounting Standards Board (IASB®). Extracts from IFRS 9, IFRIC 16 and IFRIC 19 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 41, *FINANCIAL INSTRUMENTS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 41, *Financial Instruments* was issued in August 2018.

Since then, IPSAS 41 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- IPSAS 49, *Retirement Benefit Plans* (issued November 2023)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 43, *Leases* (issued January 2022)
- *Improvements to IPSAS 2021* (issued January 2022)
- Non-Authoritative Amendments to IPSAS 41, *Financial Instruments* (issued December 2020)
- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) (issued January 2019)

Table of Amended Paragraphs in IPSAS 41

Paragraph Affected	How Affected	Affected By
2	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
3	Amended	IPSAS 47 May 2023
9	Amended	IPSAS 46 May 2023
37	Amended	IPSAS 47 May 2023
45	Amended	IPSAS 47 May 2023
60	Amended	IPSAS 47 May 2023
66	Amended	IPSAS 46 May 2023
67	Deleted	IPSAS 46 May 2023
68	Deleted	IPSAS 46 May 2023
Heading above paragraph 72A	New	*Improvements to IPSAS January 2022*
72A	New	*Improvements to IPSAS January 2022*

Paragraph Affected	How Affected	Affected By
72B	New	*Improvements to IPSAS January 2022*
72C	New	*Improvements to IPSAS January 2022*
72D	New	*Improvements to IPSAS January 2022*
72E	New	*Improvements to IPSAS January 2022*
Heading above paragraph 87	Amended	IPSAS 47 May 2023
87	Amended	IPSAS 43 January 2022 IPSAS 47 May 2023
Heading above paragraph 155A	New	*Improvements to IPSAS January 2022*
155A	New	*Improvements to IPSAS January 2022*
155B	New	*Improvements to IPSAS January 2022*
155C	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155D	New	*Improvements to IPSAS January 2022*
155D	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155E	New	*Improvements to IPSAS January 2022*
155E	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155F	New	*Improvements to IPSAS January 2022*
155F	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155G	New	*Improvements to IPSAS January 2022*
155G	New	*Improvements to IPSAS January 2022*
155H	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155I	New	*Improvements to IPSAS January 2022*
155I	New	*Improvements to IPSAS January 2022*
155J	New	*Improvements to IPSAS January 2022*
155K	New	*Improvements to IPSAS January 2022*
155L	New	*Improvements to IPSAS January 2022*
155M	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155N	New	*Improvements to IPSAS January 2022*
155N	New	*Improvements to IPSAS January 2022*

Paragraph Affected	How Affected	Affected By
155O	New	*Improvements to IPSAS January 2022*
155P	New	*Improvements to IPSAS January 2022*
155Q	New	*Improvements to IPSAS January 2022*
155R	New	*Improvements to IPSAS January 2022*
155S	New	*Improvements to IPSAS January 2022*
Headings above paragraph 155T	New	*Improvements to IPSAS January 2022*
155T	New	*Improvements to IPSAS January 2022*
155U	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155V	New	*Improvements to IPSAS January 2022*
155V	New	*Improvements to IPSAS January 2022*
155W	New	*Improvements to IPSAS January 2022*
Heading above paragraph 155X	New	*Improvements to IPSAS January 2022*
155X	New	*Improvements to IPSAS January 2022*
155Y	New	*Improvements to IPSAS January 2022*
155Z	New	*Improvements to IPSAS January 2022*
156	Amended	*COVID-19: Deferral of Effective Dates November 2020*
156A	Amended	*COVID-19: Deferral of Effective Dates November 2020*
156B	New	*Improvements to IPSAS January 2022*
156C	New	*Improvements to IPSAS January 2022*
156D	New	*Improvements to IPSAS January 2022*
156E	New	IPSAS 43 January 2022
156F	New	IPSAS 46 May 2023
156G	New	IPSAS 47 May 2023
156H	New	IPSAS 49 November 2023
156I	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
157	Amended	IPSAS 33 November 2025
Heading above paragraph 184	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features*

Paragraph Affected	How Affected	Affected By
		with Negative Compensation (Amendments to IPSAS 41) January 2019
184	Amended	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019 *Improvements to IPSAS January 2022*
185	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
186	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
187	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
188	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
189	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
Heading above paragraph 191	New	*Improvements to IPSAS January 2022*
191	New	*Improvements to IPSAS January 2022*
192	New	*Improvements to IPSAS January 2022*
193	New	*Improvements to IPSAS January 2022*
194	New	*Improvements to IPSAS January 2022*
Heading above paragraph 195	New	*Improvements to IPSAS January 2022*
195	New	*Improvements to IPSAS January 2022*
AG2	Amended	IPSAS 47 May 2023 IPSAS 49 November 2023

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AG5	Amended	IPSAS 47 May 2023
AG6	Amended	IPSAS 47 May 2023
AG31	Amended	IPSAS 46 May 2023
AG33	Amended	IPSAS 47 May 2023
AG34	Amended	IPSAS 47 May 2023
AG38	Amended	IPSAS 46 May 2023
AG43	Amended	IPSAS 47 May 2023
AG44	Amended	IPSAS 47 May 2023
AG46	Amended	*Improvements to IPSAS* January 2022
AG46A	New	*Improvements to IPSAS* January 2022
AG73	Amended	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
AG74	Amended	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
AG74A	New	*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) January 2019
Heading above paragraph AG114	Amended	IPSAS 47 May 2023
AG114	Amended	IPSAS 47 May 2023
AG115	Amended	IPSAS 47 May 2023
AG117	Amended	IPSAS 46 May 2023
AG124	Amended	IPSAS 47 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
AG125	Amended	IPSAS 47 May 2023
AG129	Amended	IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
AG130	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
AG132	Amended	IPSAS 47 May 2023
AG133	Amended	IPSAS 47 May 2023
AG135	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
AG136	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
Headings above paragraph AG143A	New	IPSAS 46 May 2023
AG143A	New	IPSAS 46 May 2023
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Heading above paragraph AG143D	New	IPSAS 46 May 2023
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AG143F	New	IPSAS 46 May 2023
Heading above paragraph AG143G	New	IPSAS 46 May 2023
AG143G	New	IPSAS 46 May 2023
AG143H	New	IPSAS 46 May 2023
Heading above paragraph AG143I	New	IPSAS 46 May 2023
AG143I	New	IPSAS 46 May 2023
AG143J	New	IPSAS 46 May 2023
AG143K	New	IPSAS 46 May 2023
Heading above paragraph AG143L	New	IPSAS 46 May 2023
AG143L	New	IPSAS 46 May 2023
AG143M	New	IPSAS 46 May 2023
Heading above paragraph AG143N	New	IPSAS 46 May 2023
AG143N	New	IPSAS 46 May 2023
Heading above paragraph AG143O	New	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
AG143O	New	IPSAS 46 May 2023
AG143P	New	IPSAS 46 May 2023
AG143Q	New	IPSAS 46 May 2023
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AG143S	New	IPSAS 46 May 2023
Heading above paragraph AG143T	New	IPSAS 46 May 2023
AG143T	New	IPSAS 46 May 2023
AG143U	New	IPSAS 46 May 2023
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Heading above paragraph AG143W	New	IPSAS 46 May 2023
AG143W	New	IPSAS 46 May 2023
Heading above paragraph AG143X	New	IPSAS 46 May 2023
AG143X	New	IPSAS 46 May 2023
AG143Y	New	IPSAS 46 May 2023
AG143Z	New	IPSAS 46 May 2023
Heading above paragraph AG143AA	New	IPSAS 46 May 2023
AG143AA	New	IPSAS 46 May 2023
AG143AB	New	IPSAS 46 May 2023
AG144	Deleted	IPSAS 46 May 2023
AG145	Deleted	IPSAS 46 May 2023
Heading above paragraph AG146	Deleted	IPSAS 46 May 2023
AG146	Deleted	IPSAS 46 May 2023
AG147	Deleted	IPSAS 46 May 2023
AG148	Deleted	IPSAS 46 May 2023
Heading above paragraph AG149	Deleted	IPSAS 46 May 2023
AG149	Deleted	IPSAS 46 May 2023
AG150	Deleted	IPSAS 46 May 2023
AG151	Deleted	IPSAS 46 May 2023

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AG152	Deleted	IPSAS 46 May 2023
AG153	Deleted	IPSAS 46 May 2023
AG154	Deleted	IPSAS 46 May 2023
Heading above paragraph AG155	Deleted	IPSAS 46 May 2023
AG155	Deleted	IPSAS 46 May 2023
AG158	Amended	IPSAS 47 May 2023
AG198	Amended	IPSAS 43 January 2022
AG210	Amended	IPSAS 43 January 2022
B1	New	*Non-Authoritative Amendments to IPSAS 41, Financial Instruments* December 2020
B11	New	*Non-Authoritative Amendments to IPSAS 41, Financial Instruments* December 2020
B12	New	*Non-Authoritative Amendments to IPSAS 41, Financial Instruments* December 2020
B121	New	*Non-Authoritative Amendments to IPSAS 41, Financial Instruments* December 2020
B122	New	*Non-Authoritative Amendments to IPSAS 41, Financial Instruments* December 2020
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IE211	New	*Non-Authoritative Amendments to IPSAS 41, Financial Instruments* December 2020
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G.1	Amended	IPSAS 47 May 2023

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International Public Sector Accounting Standard 41, *Financial Instruments*, is set out in paragraphs 1–195. All the paragraphs have equal authority. IPSAS 41 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments except:**

   (a) **Those interests in controlled entities, associates and joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, or IPSAS 36, *Investments in Associates and Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate or joint venture in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a controlled entity, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in IPSAS 28, *Financial Instruments: Presentation*.**

   (b) **Rights and obligations under leases to which IPSAS 43, *Leases* applies. However:**

      (i) **Finance lease receivables (i.e., net investments in finance leases) and operating lease receivables recognized by a lessor are subject to the derecognition and impairment requirements of this Standard;**

      (ii) **Lease liabilities recognized by a lessee are subject to the derecognition requirements in paragraph 35 of this Standard; and**

      (iii) **Derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.**

   (c) **Employers' rights and obligations under employee benefit plans, to which IPSAS 39, *Employee Benefits* applies.**

   (d) **Financial instruments issued by the entity that meet the definition of an equity instrument in IPSAS 28 (including options and warrants) or that are required to be classified as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 of IPSAS 28. However, the holder of such equity instruments shall apply this Standard to those instruments, unless they meet the exception in (a).**

   (e) **Rights and obligations arising under:**

      (i) **An insurance contract, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in paragraph 9; or**

      (ii) **A contract that is within the scope of relevant international or national accounting standard dealing with insurance contracts because it contains a discretionary participation feature.**

   This Standard applies to a derivative that is embedded in a contract if the derivative is not itself an insurance contract (see paragraphs 47–53 and Appendix A paragraphs AG99–AG110 of this Standard). An entity applies this Standard to financial guarantee contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply that standard in recognizing and measuring them. Notwithstanding (i)

above, an entity may apply this Standard to other insurance contracts which involve the transfer of financial risk.

(f) **Any forward contract between an acquirer and a selling shareholder to buy or sell an acquired operation that will result in a public sector combination to which IPSAS 40 applies at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.**

(g) **Loan commitments other than those loan commitments described in paragraph 4. However, an issuer of loan commitments shall apply the impairment requirements of this Standard to loan commitments that are not otherwise within the scope of this Standard. Also, all loan commitments are subject to the derecognition requirements of this Standard.**

(h) **Financial instruments, contracts and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share based payment applies, except for contracts within the scope of paragraphs 5–8 of this Standard to which this Standard applies.**

(i) **Rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognizes as a provision in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, or for which, in an earlier period, it recognized a provision in accordance with IPSAS 19.**

(j) **The initial recognition and initial measurement of rights and obligations arising from revenue transactions to which IPSAS 47, *Revenue* applies (see paragraph AG6);**

(k) **Rights and obligations under service concession arrangements to which IPSAS 32, *Service Concession Arrangements: Grantor* applies. However, financial liabilities recognized by a grantor under the financial liability model are subject to the derecognition provisions of this Standard (see paragraphs 35–38 and Appendix A paragraphs AG39–AG47).**

3. **The impairment requirements of this Standard shall be applied to those rights arising from IPSAS 47, and transactions for the purposes of recognizing impairment gains or losses.**

4. **The following loan commitments are within the scope of this Standard:**

(a) **Loan commitments that the entity designates as financial liabilities at fair value through surplus or deficit (see paragraph 46). An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class.**

(b) **Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in installments (for example, a mortgage construction loan that is paid out in installments in line with the progress of construction).**

(c) **Commitments to provide a loan at a below-market interest rate (see paragraph 45(d)).**

5. **This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through surplus or deficit in accordance with paragraph 6.**

6. **A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through surplus or deficit even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognizing that contract because it is excluded from the scope of this Standard (see paragraph 5).**

7. There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

   (a) When the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;

   (b) When the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);

   (c) When, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

   (d) When the non-financial item that is the subject of the contract is readily convertible to cash.

   A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 5 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements and, accordingly, whether they are within the scope of this Standard.

8. A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 7(a) or 7(d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

   12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

   The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

   A credit-impaired financial asset is a financial asset that is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have

occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) **Significant financial difficulty of the issuer or the borrower;**

(b) **A breach of contract, such as a default or past due event;**

(c) **The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;**

(d) **It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;**

(e) **The disappearance of an active market for that financial asset because of financial difficulties; or**

(f) **The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.**

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortized cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs AG156–AG158), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Derecognition is the removal of a previously recognized financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics.

(a) **Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').**

(b) **It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.**

(c) **It is settled at a future date.**

Dividends or similar distributions are distributions to holders of equity instruments in proportion to their holdings of a particular class of capital.

The effective interest method is the method that is used in the calculation of the amortized cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in surplus or deficit over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs AG156–AG158), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

An expected credit loss is the weighted average of credit losses with the respective risks of a default occurring as the weights.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability at fair value through surplus or deficit is a financial liability that meets one of the following conditions:

(a) **It meets the definition of held for trading.**

(b) **Upon initial recognition it is designated by the entity as at fair value through surplus or deficit in accordance with paragraph 46 or 51.**

(c) **It is designated either upon initial recognition or subsequently as at fair value through surplus or deficit in accordance with paragraph 152.**

A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

A forecast transaction is an uncommitted but anticipated future transaction.

The gross carrying amount of a financial asset is the amortized cost of a financial asset, before adjusting for any loss allowance.

The hedge ratio is the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.

A held for trading financial instrument is a financial asset or financial liability that:

(a) **Is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;**

(b) **On initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or**

(c) **Is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).**

An impairment gain or loss is recognized in surplus or deficit in accordance with paragraph 80 and arises from applying the impairment requirements in paragraphs 73–93.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

A loss allowance is the allowance for expected credit losses on financial assets measured in accordance with paragraph 40, lease receivables, the accumulated impairment amount for financial assets measured in accordance with paragraph 41 and the provision for expected credit losses on loan commitments and financial guarantee contracts.

A modification gain or loss is the amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows. The entity recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest rate (or the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with paragraph 139. When estimating the expected cash flows of a financial asset, an entity shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset, in which case an entity shall also consider the initial expected credit losses that were considered when calculating the original credit-adjusted effective interest rate.

A financial asset is past due when a counterparty has failed to make a payment when that payment was contractually due.

A purchased or originated credit-impaired financial asset is credit-impaired on initial recognition.

The reclassification date is the first day of the first reporting period following the change in management model that results in an entity reclassifying financial assets.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see paragraph AG163). An incremental cost is one

that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the Glossary of Defined Terms published separately. The following terms are defined in either IPSAS 28, IPSAS 30, *Financial Instruments: Disclosures*, or IPSAS 46, *Measurement*: credit risk[1], currency risk, fair value, liquidity risk, market risk, equity instrument, financial asset, financial instrument, financial liability and puttable instrument.

Recognition and Derecognition

Initial Recognition

10. **An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs AG15 and AG16). When an entity first recognizes a financial asset, it shall classify it in accordance with paragraphs 39–44 and measure it in accordance with paragraphs 57 and 59. When an entity first recognizes a financial liability, it shall classify it in accordance with paragraphs 45 and 46 and measure it in accordance with paragraph 57.**

Regular Way Purchase or Sale of Financial Assets

11. **A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting (see paragraphs AG17–AG20).**

Derecognition of Financial Assets

12. In consolidated financial statements, paragraphs 13–20, AG15, AG16 and AG21–AG38 are applied at a consolidated level. Hence, an entity first consolidates all controlled entities in accordance with IPSAS 35 and then applies those paragraphs to the resulting economic entity.

13. **Before evaluating whether, and to what extent, derecognition is appropriate under paragraphs 14–20, an entity determines whether those paragraphs should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows.**

    (a) **Paragraphs 14–20 are applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.**

        (i) **The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument, paragraphs 14–20 are applied to the interest cash flows.**

        (ii) **The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 percent share of all cash flows of a debt instrument, paragraphs 14–20 are applied to 90 percent of those cash flows. If there is more than one counterparty, each counterparty is not required to**

[1] This term (as defined in IPSAS 30) is used in the requirements for presenting the effects of changes in credit risk on liabilities designated as at fair value through surplus or deficit (see paragraph 108).

have a proportionate share of the cash flows provided that the transferring entity has a fully proportionate share.

(iii) **The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 percent share of interest cash flows from a financial asset, paragraphs 14–20 are applied to 90 percent of those interest cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the specifically identified cash flows provided that the transferring entity has a fully proportionate share.**

(b) **In all other cases, paragraphs 14–20 are applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety). For example, when an entity transfers (i) the rights to the first or the last 90 percent of cash collections from a financial asset (or a group of financial assets), or (ii) the rights to 90 percent of the cash flows from a group of receivables, but provides a guarantee to compensate the buyer for any credit losses up to 8 percent of the principal amount of the receivables, paragraphs 14–20 are applied to the financial asset (or a group of similar financial assets) in its entirety.**

In paragraphs 14–23, the term 'financial asset' refers to either a part of a financial asset (or a part of a group of similar financial assets) as identified in (a) above or, otherwise, a financial asset (or a group of similar financial assets) in its entirety.

14. **An entity shall derecognize a financial asset when, and only when:**

(a) **The contractual rights to the cash flows from the financial asset expire or are waived, or**

(b) **It transfers the financial asset as set out in paragraphs 15 and 16 and the transfer qualifies for derecognition in accordance with paragraph 17.**

(See paragraph 11 for regular way sales of financial assets.)

15. **An entity transfers a financial asset if, and only if, it either:**

(a) **Transfers the contractual rights to receive the cash flows of the financial asset, or**

(b) **Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 16.**

16. **When an entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met.**

(a) **The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.**

(b) **The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.**

(c) **The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IPSAS 2, *Cash Flow***

***Statements*) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.**

17. **When an entity transfers a financial asset (see paragraph 15), it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:**

    (a) **If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.**

    (b) **If the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognize the financial asset.**

    (c) **If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:**

        (i) **If the entity has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.**

        (ii) **If the entity has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset (see paragraph 27).**

18. The transfer of risks and rewards (see paragraph 17) is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred a fully proportionate share of the cash flows from a larger financial asset in an arrangement, such as a loan sub-participation, that meets the conditions in paragraph 16).

19. Often it will be obvious whether the entity has transferred or retained substantially all risks and rewards of ownership and there will be no need to perform any computations. In other cases, it will be necessary to compute and compare the entity's exposure to the variability in the present value of the future net cash flows before and after the transfer. The computation and comparison are made using as the discount rate an appropriate current market interest rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.

20. Whether the entity has retained control (see paragraph 17(c)) of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.

Transfers that Qualify for Derecognition

21. **If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognize either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognized at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognized for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph 24.**

22. **If, as a result of a transfer, a financial asset is derecognized in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognize the new financial asset, financial liability or servicing liability at fair value.**

23. **On derecognition of a financial asset in its entirety, the difference between:**

    (a) **The carrying amount (measured at the date of derecognition); and**

    (b) **The consideration received (including any new asset obtained less any new liability assumed)**

    shall be recognized in surplus or deficit.

24. **If the transferred asset is part of a larger financial asset (e.g., when an entity transfers interest cash flows that are part of a debt instrument, see paragraph 13(a)) and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognized. The difference between:**

    (a) **The carrying amount (measured at the date of derecognition) allocated to the part derecognized; and**

    (b) **The consideration received for the part derecognized (including any new asset obtained less any new liability assumed)**

    shall be recognized in surplus or deficit.

25. When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognized and the part that is derecognized, the fair value of the part that continues to be recognized needs to be measured. When the entity has a history of selling parts similar to the part that continues to be recognized or other market transactions exist for such parts, recent prices of actual transactions provide the best estimate of its fair value. When there are no price quotes or recent market transactions to support the fair value of the part that continues to be recognized, the best estimate of the fair value is the difference between the fair value of the larger financial asset as a whole and the consideration received from the transferee for the part that is derecognized.

Transfers that do not Qualify for Derecognition

26. **If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognize the transferred asset in its entirety and shall recognize a financial liability for the consideration received. In subsequent periods, the entity shall recognize any revenue on the transferred asset and any expense incurred on the financial liability.**

Continuing Involvement in Transferred Assets

27. **If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognize the transferred asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. For example:**

    (a) **When the entity's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the entity's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the entity could be required to repay ('the guarantee amount').**

    (b) **When the entity's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price (see paragraph AG34).**

    (c) **When the entity's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the entity's continuing involvement is measured in the same way as that which results from non-cash settled options as set out in (b) above.**

28. **When an entity continues to recognize an asset to the extent of its continuing involvement, the entity also recognizes an associated liability. Despite the other measurement requirements in this Standard, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:**

    (a) **The amortized cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortized cost; or**

    (b) **Equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.**

29. **The entity shall continue to recognize any revenue arising on the transferred asset to the extent of its continuing involvement and shall recognize any expense incurred on the associated liability.**

30. **For the purpose of subsequent measurement, recognized changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 101, and shall not be offset.**

31. **If an entity's continuing involvement is in only a part of a financial asset (e.g., when an entity retains an option to repurchase part of a transferred asset, or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the entity retains control), the entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, the requirements of paragraph 25 apply. The difference between:**

    (a) **The carrying amount (measured at the date of derecognition) allocated to the part that is no longer recognized; and**

(b) **The consideration received for the part no longer recognized**

shall be recognized in surplus or deficit.

32. If the transferred asset is measured at amortized cost, the option in this Standard to designate a financial liability as at fair value through surplus or deficit is not applicable to the associated liability.

All Transfers

33. **If a transferred asset continues to be recognized, the asset and the associated liability shall not be offset. Similarly, the entity shall not offset any revenue arising from the transferred asset with any expense incurred on the associated liability (see paragraph 47 of IPSAS 28).**

34. **If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:**

(a) **If the transferee has the right by contract or custom to sell or repledge the collateral, then the transferor shall reclassify that asset in its statement of financial position (e.g., as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets.**

(b) **If the transferee sells collateral pledged to it, it shall recognize the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.**

(c) **If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognize the collateral, and the transferee shall recognize the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognize its obligation to return the collateral.**

(d) **Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognize the collateral as an asset.**

Derecognition of Financial Liabilities

35. **An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—i.e., when the obligation specified in the contract is discharged, waived, canceled or expires.**

36. **An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.**

37. **The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in surplus or deficit. Where an obligation is waived by the lender or assumed by a third party as part of a non-exchange transaction, an entity applies IPSAS 47.**

38. If an entity repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying

amount allocated to the part derecognized and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognized shall be recognized in surplus or deficit.

Classification

Classification of Financial Assets

39. **Unless paragraph 44 applies, an entity shall classify financial assets as subsequently measured at amortized cost, fair value through net assets/equity or fair value through surplus or deficit on the basis of both:**

    (a) **The entity's management model for financial assets and**

    (b) **The contractual cash flow characteristics of the financial asset.**

40. **A financial asset shall be measured at amortized cost if both of the following conditions are met:**

    (a) **The financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and**

    (b) **The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.**

    Paragraphs AG48–AG88 provide guidance on how to apply these conditions.

41. **A financial asset shall be measured at fair value through net assets/equity if both of the following conditions are met:**

    (a) **The financial asset is held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and**

    (b) **The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.**

    Paragraphs AG48–AG88 provide guidance on how to apply these conditions.

42. **For the purpose of applying paragraphs 40(b)and 41(b):**

    (a) **Principal is the fair value of the financial asset at initial recognition. Paragraph AG64 provides additional guidance on the meaning of principal.**

    (b) **Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Paragraphs AG63 and AG67–AG71 provide additional guidance on the meaning of interest, including the meaning of the time value of money.**

43. **A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost in accordance with paragraph 40 or at fair value through net assets/equity in accordance with paragraph 41. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through surplus or deficit to present subsequent changes in fair value in net assets/equity (see paragraphs 106–107).**

Option to Designate a Financial Asset at Fair Value through Surplus or Deficit

44. **Despite paragraphs 39–43, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through surplus or deficit if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that**

would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases (see paragraphs AG91–AG94).

Classification of Financial Liabilities

45. **An entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:**

    (a) **Financial liabilities at fair value through surplus or deficit. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.**

    (b) **Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 26 and 28 apply to the measurement of such financial liabilities.**

    (c) **Financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 45(a) or (b) applies) subsequently measure it at the higher of:**

        (i) **The amount of the loss allowance determined in accordance with paragraphs 73–93; and**

        (ii) **The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of revenue recognized in accordance with the principles of IPSAS 47.**

    (d) **Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 45(a) applies) subsequently measure it at the higher of:**

        (i) **The amount of the loss allowance determined in accordance with paragraphs 73–93; and**

        (ii) **The amount initially recognized (see paragraph 57) less, when appropriate, the cumulative amount of revenue recognized in accordance with the principles of IPSAS 47.**

    (e) **Contingent consideration recognized by an acquirer in a public sector combination to which IPSAS 40 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in surplus or deficit.**

Option to Designate a Financial Liability at Fair Value through Surplus or Deficit

46. **An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through surplus or deficit when permitted by paragraph 51, or when doing so results in more relevant information, because either:**

    (a) **It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases (see paragraphs AG91–AG94); or**

    (b) **A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IPSAS 20, Related Party Disclosures), for example, the entity's governing body and chief executive officer (see paragraphs AG95–AG98).**

Embedded Derivatives

47. An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone

derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a *financial instrument* but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

Hybrid Contracts with Financial Asset Hosts

48. **If a hybrid contract contains a host that is an asset within the scope of this Standard, an entity shall apply the requirements in paragraphs 39–44 to the entire hybrid contract.**

Other Hybrid Contracts

49. **If a hybrid contract contains a host that is not an asset within the scope of this Standard, an embedded derivative shall be separated from the host and accounted for as a derivative under this Standard if, and only if:**

    (a) **The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host (see paragraphs AG103 and AG106);**

    (b) **A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and**

    (c) **The hybrid contract is not measured at fair value with changes in fair value recognized in surplus or deficit (i.e., a derivative that is embedded in a financial liability at fair value through surplus or deficit is not separated).**

50. **If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate Standards. This Standard does not address whether an embedded derivative shall be presented separately in the statement of financial position.**

51. **Despite paragraphs 49 and 50, if a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard, an entity may designate the entire hybrid contract as at fair value through surplus or deficit unless:**

    (a) **The embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or**

    (b) **It is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost.**

52. **If an entity is required by this Standard to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through surplus or deficit.**

53. If an entity is unable to measure reliably the fair value of an embedded derivative on the basis of its terms and conditions, the fair value of the embedded derivative is the difference between the fair value of the hybrid contract and the fair value of the host. If the entity is unable to measure the fair value of the embedded derivative using this method, paragraph 52 applies and the hybrid contract is designated as at fair value through surplus or deficit.

Reclassification

54. **When, and only when, an entity changes its management model for financial assets it shall reclassify all affected financial assets in accordance with paragraphs 39–43. See paragraphs 94–100, AG111–AG113 and AG220–AG221 for additional guidance on reclassifying financial assets.**

55. **An entity shall not reclassify any financial liability.**

56. The following changes in circumstances are not reclassifications for the purposes of paragraphs 54–55:

    (a) An item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

    (b) An item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and

    (c) Changes in measurement in accordance with paragraphs 152–155.

Measurement

Initial Measurement

57. **Except for short-term receivables and payables within the scope of paragraph 60, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.**

58. **However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph AG117.**

59. When an entity uses settlement date accounting for an asset that is subsequently measured at amortized cost, the asset is recognized initially at its fair value on the trade date (see paragraphs AG17–AG20).

60. Despite the requirement in paragraph 57, at initial recognition, an entity may measure short-term receivables at their transaction consideration (as defined in IPSAS 47) if the short-term receivables do not contain a significant financing component (in accordance with IPSAS 47, or when the entity applies the practical expedient in paragraph 126 of IPSAS 47). An entity may measure short-term payables at the transaction consideration if the effect of discounting is immaterial.

Subsequent Measurement of Financial Assets

61. **After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 39–44 at:**

    (a) **Amortized cost;**

    (b) **Fair value through net assets/equity; or**

    (c) **Fair value through surplus or deficit.**

62. **An entity shall apply the impairment requirements in paragraphs 73–93 to financial assets that are measured at amortized cost in accordance with paragraph 40 and to financial assets that are measured at fair value through net assets/equity in accordance with paragraph 41.**

63. **An entity shall apply the hedge accounting requirements in paragraphs 137–143 (and, if applicable, paragraphs 99–105 of IPSAS 29, *Financial Instruments: Recognition and Measurement*) for the fair**

value hedge accounting for a portfolio hedge of interest rate risk) to a financial asset that is designated as a hedged item.[2]

Subsequent Measurement of Financial Liabilities

64. **After initial recognition, an entity shall measure a financial liability in accordance with paragraphs 45–46.**

65. **An entity shall apply the hedge accounting requirements in paragraphs 137–143 (and, if applicable, paragraphs 99–105 of IPSAS 29 for the fair value hedge accounting for a portfolio hedge of interest rate risk) to a financial liability that is designated as a hedged item.**

Fair Value Measurement Considerations

66. In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, IPSAS 28 or IPSAS 30, an entity shall apply IPSAS 46 and paragraphs AG143A–AG143AB of Appendix A.

67. [Deleted]

68. [Deleted]

Amortized Cost Measurement

Financial Assets

Effective Interest Method

69. **Interest revenue shall be calculated by using the effective interest method (see paragraphs 9 and AG156–AG162). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:**

    (a) **Purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.**

    (b) **(Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.**

70. An entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortized cost of a financial asset in accordance with paragraph 69(b), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 69(b) were applied (such as an improvement in the borrower's credit rating).

Modification of Contractual Cash Flows

71. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognize

[2] In accordance with paragraph 179, an entity may choose as its accounting policy to continue to apply the hedge accounting requirements in IPSAS 29 instead of the requirements in paragraphs 113-155 of this Standard. If an entity has made this election, the references in this Standard to particular hedge accounting requirements in paragraphs 113-155 are not relevant. Instead the entity applies the relevant hedge accounting requirements in IPSAS 29.

a modification gain or loss in surplus or deficit. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with paragraph 139. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

Write-off

72. An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event (see paragraph AG37(r)).

Changes in the Basis for Determining the Contractual Cash Flows as a Result of Interest Rate Benchmark Reform

72A. An entity shall apply paragraphs 72B–72E to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 155B.

72B. The basis for determining the contractual cash flows of a financial asset or financial liability can change:

(a) By amending the contractual terms specified at the initial recognition of the financial instrument (for example, the contractual terms are amended to replace the referenced interest rate benchmark with an alternative benchmark rate);

(b) In a way that was not considered by—or contemplated in—the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms); and/or

(c) Because of the activation of an existing contractual term (for example, an existing fallback clause is triggered).

72C. As a practical expedient, an entity shall apply paragraph AG160 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 72E). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met:

(a) The change is necessary as a direct consequence of interest rate benchmark reform; and

(b) The new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e., the basis immediately preceding the change).

72D. Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the previous basis (i.e., the basis immediately preceding the change) are:

(a) The replacement of an existing interest rate benchmark used to determine the contractual cash flows of a financial asset or financial liability with an alternative benchmark rate—or the implementation of such a reform of an interest rate benchmark by altering the method used to calculate the interest rate benchmark—with the addition of a fixed spread necessary to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate;

(b) Changes to the reset period, reset dates or the number of days between coupon payment dates in order to implement the reform of an interest rate benchmark; and

(c) The addition of a fallback provision to the contractual terms of a financial asset or financial liability to enable any change described in (a) and (b) above to be implemented.

72E. If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 72C to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this Standard to any additional changes to which the practical expedient does not apply. If the additional change does not result in the derecognition of the financial asset or financial liability, the entity shall apply paragraph 71 or paragraph AG161, as applicable, to account for that additional change. If the additional change results in the derecognition of the financial asset or financial liability, the entity shall apply the derecognition requirements.

Impairment

Recognition of Expected Credit Losses

General Approach

73. **An entity shall recognize a loss allowance for *expected credit losses* on a financial asset that is measured in accordance with paragraphs 40 or 41, a lease receivable, or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2(g), 45(c) or 45(d).**

74. An entity shall apply the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through net assets/equity in accordance with paragraph 41. However, the loss allowance shall be recognized in net assets/equity and shall not reduce the carrying amount of the financial asset in the statement of financial position.

75. **Subject to paragraphs 85–88, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.**

76. The objective of the impairment requirements is to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

77. **Subject to paragraphs 85–88, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.**

78. For loan commitments and financial guarantee contracts, the date that the entity becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

79. If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 75 is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

80. An entity shall recognize in surplus or deficit, as an *impairment gain or loss*, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with this Standard.

Determining Significant Increases in Credit Risk

81. At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

82. An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (see paragraphs AG186–AG188).

83. If reasonable and supportable forward-looking information is available without undue cost or effort, an entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, an entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When an entity determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

Modified Financial Assets

84. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognized, an entity shall assess whether there has been a significant increase in the credit risk of the financial instrument in accordance with paragraph 75 by comparing:

    (a) The risk of a default occurring at the reporting date (based on the modified contractual terms); and

    (b) The risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

Purchased or Originated Credit-Impaired Financial Assets

85. **Despite paragraphs 75 and 77, at the reporting date, an entity shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.**

86. At each reporting date, an entity shall recognize in surplus or deficit the amount of the change in lifetime expected credit losses as an impairment gain or loss. An entity shall recognize favorable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Simplified Approach for Receivables and Binding Arrangement Assets

87. **Despite paragraphs 75 and 77, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:**

    (a) **Receivables or binding arrangement assets that result from transactions within the scope of IPSAS 47 and that:**

        (i) **Do not contain a significant financing component in accordance with IPSAS 47 (or when the entity applies the practical expedient in accordance with paragraph 126 of IPSAS 47);**

        (ii) **Contain a significant financing component in accordance with IPSAS 47, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all receivables or binding arrangement assets but may be applied separately to receivables and binding arrangement assets.**

    (b) **Lease receivables that result from transactions that are within the scope of IPSAS 43, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.**

88. An entity may select its accounting policy for trade receivables and lease receivables independently of each other.

89. The requirements for purchased or originated credit-impaired financial assets (see paragraphs 9 and 85 to 86) do not apply to short-term receivables.

Measurement of Expected Credit Losses

90. **An entity shall measure expected credit losses of a financial instrument in a way that reflects:**

    (a) **An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;**

    (b) **The time value of money; and**

    (c) **Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.**

91. When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

92. The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

93. However, some financial instruments include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For such financial instruments, and only those financial instruments, the entity shall measure expected credit losses over the period that the entity is exposed to credit risk and expected credit losses would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

Reclassification of Financial Assets

94. **If an entity reclassifies financial assets in accordance with paragraph 54, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Paragraphs 95–100 set out the requirements for reclassifications.**

95. **If an entity reclassifies a financial asset out of the amortized cost measurement category and into the fair value through surplus or deficit measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in surplus or deficit.**

96. **If an entity reclassifies a financial asset out of the fair value through surplus or deficit measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount. (See paragraph AG221 for guidance on determining an effective interest rate and a loss allowance at the reclassification date.)**

97. **If an entity reclassifies a financial asset out of the amortized cost measurement category and into the fair value through net assets/equity measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in net assets/equity. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. (See paragraph AG220.)**

98. **If an entity reclassifies a financial asset out of the fair value through net assets/equity measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in net assets/equity is removed from net assets/equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects net assets/equity but does not affect surplus or deficit and therefore is not a reclassification adjustment (see IPSAS 1, *Presentation of Financial Statements*). The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. (See paragraph AG220.)**

99. **If an entity reclassifies a financial asset out of the fair value through surplus or deficit measurement category and into the fair value through net assets/equity measurement category, the financial asset continues to be measured at fair value. (See paragraph AG221 for guidance on determining an effective interest rate and a loss allowance at the reclassification date.)**

100. **If an entity reclassifies a financial asset out of the fair value through net assets/equity measurement category and into the fair value through surplus or deficit measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in net assets/equity is reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see IPSAS 1) at the reclassification date.**

Gains and Losses

101. **A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognized in surplus or deficit unless:**

    (a) **It is part of a hedging relationship (see paragraphs 137–143 and, if applicable, paragraphs 99–105 of IPSAS 29 for the fair value hedge accounting for a portfolio hedge of interest rate risk);**

(b) **It is an investment in an equity instrument and the entity has elected to present gains and losses on that investment in net assets/equity in accordance with paragraph 106;**

(c) **It is a financial liability designated as at fair value through surplus or deficit and the entity is required to present the effects of changes in the liability's credit risk in net assets/equity in accordance with paragraph 108; or**

(d) **It is a financial asset measured at fair value through net assets/equity in accordance with paragraph 41 and the entity is required to recognize some changes in fair value in net assets/equity in accordance with paragraph 111.**

102. Dividends or similar distributions are recognized in surplus or deficit only when:

(a) The entity's right to receive payment of the dividend is established;

(b) It is probable that the economic benefits associated with the dividend will flow to the entity; and

(c) The amount of the dividend can be measured reliably.

103. **A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging relationship (see paragraphs 137–143 and, if applicable, paragraphs 99–105 of IPSAS 29 for the fair value hedge accounting for a portfolio hedge of interest rate risk) shall be recognized in surplus or deficit when the financial asset is derecognized, reclassified in accordance with paragraph 95, through the amortization process or in order to recognize impairment gains or losses. An entity shall apply paragraphs 95 and 97 if it reclassifies financial assets out of the amortized cost measurement category. A gain or loss on a financial liability that is measured at amortized cost and is not part of a hedging relationship (see paragraphs 137–143 and, if applicable, paragraphs 99–105 of IPSAS 29 for the fair value hedge accounting for a portfolio hedge of interest rate risk) shall be recognized in surplus or deficit when the financial liability is derecognized and through the amortization process. (See paragraph AG224 for guidance on foreign exchange gains or losses.)**

104. **A gain or loss on financial assets or financial liabilities that are hedged items in a hedging relationship shall be recognized in accordance with paragraphs 137–143 and, if applicable, paragraphs 99–105 of IPSAS 29 for the fair value hedge accounting for a portfolio hedge of interest rate risk.**

105. **If an entity recognizes financial assets using settlement date accounting (see paragraphs 11, AG17 and AG20), any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets measured at amortized cost. For assets measured at fair value, however, the change in fair value shall be recognized in surplus or deficit or in net assets/equity, as appropriate in accordance with paragraph 101. The trade date shall be considered the date of initial recognition for the purposes of applying the impairment requirements.**

Investments in Equity Instruments

106. **At initial recognition, an entity may make an irrevocable election to present in net assets/equity subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognized by an acquirer in a public sector combination. (See paragraph AG226 for guidance on foreign exchange gains or losses.)**

107. If an entity makes the election in paragraph 106, it shall recognize in surplus or deficit dividends or similar distributions from that investment in accordance with paragraph 102.

Liabilities Designated as at Fair Value through Surplus or Deficit

108. **An entity shall present a gain or loss on a financial liability that is designated as at fair value through surplus or deficit in accordance with paragraph 46 or paragraph 51 as follows:**

(a) **The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in net assets/equity (see paragraphs AG236–AG243), and**

(b) **The remaining amount of change in the fair value of the liability shall be presented in surplus or deficit**

unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in surplus or deficit (in which case paragraph 109 applies). Paragraphs AG228–AG230 and AG233–AG235 provide guidance on determining whether an accounting mismatch would be created or enlarged.

109. **If the requirements in paragraph 108 would create or enlarge an accounting mismatch in surplus or deficit, an entity shall present all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in surplus or deficit.**

110. Despite the requirements in paragraphs 108 and 109, an entity shall present in surplus or deficit all gains and losses on loan commitments and financial guarantee contracts that are designated as at fair value through surplus or deficit.

Assets Measured at Fair Value through Net Assets/Equity

111. **A gain or loss on a financial asset measured at fair value through net assets/equity in accordance with paragraph 41 shall be recognized in net assets/equity, except for impairment gains or losses (see paragraphs 73–93) and foreign exchange gains and losses (see paragraphs AG224–AG225), until the financial asset is derecognized or reclassified. When the financial asset is derecognized the cumulative gain or loss previously recognized in net assets/equity is reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see paragraphs 125A–125C of IPSAS 1). If the financial asset is reclassified out of the fair value through net assets/equity measurement category, the entity shall account for the cumulative gain or loss that was previously recognized in net assets/equity in accordance with paragraphs 98 and 100. Interest calculated using the effective interest method is recognized in surplus or deficit.**

112. **As described in paragraph 111, if a financial asset is measured at fair value through net assets/equity in accordance with paragraph 41, the amounts that are recognized in surplus or deficit are the same as the amounts that would have been recognized in surplus or deficit if the financial asset had been measured at amortized cost.**

Hedge Accounting

Objective and Scope of Hedge Accounting

113. The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect surplus or deficit (or net assets/equity, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106). This approach aims to convey the context of hedging instruments for which hedge accounting is applied in order to allow insight into their purpose and effect.

114. An entity may choose to designate a hedging relationship between a hedging instrument and a hedged item in accordance with paragraphs 116–128 and AG244–AG274. For hedging relationships that meet the qualifying criteria, an entity shall account for the gain or loss on the hedging instrument and the hedged item in accordance with paragraphs 130–143 and AG294–AG321. When the hedged item is a group of items, an entity shall comply with the additional requirements in paragraphs 146–151 and AG333–AG348.

115. For a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only for such a hedge), an entity may apply the hedge accounting requirements in IPSAS 29 instead of those in this Standard. In that case, the entity must also apply the specific requirements for the fair value hedge accounting for a portfolio hedge of interest rate risk and designate as the hedged item a portion that is a currency amount (see paragraphs 91, 100 and AG157–AG175 of IPSAS 29).

Hedging Instruments

Qualifying Instruments

116. **A derivative measured at fair value through surplus or deficit may be designated as a hedging instrument, except for some written options (see paragraph AG247).**

117. **A non-derivative financial asset or a non-derivative financial liability measured at fair value through surplus or deficit may be designated as a hedging instrument unless it is a financial liability designated as at fair value through surplus or deficit for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in net assets/equity in accordance with paragraph 108. For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106.**

118. **For hedge accounting purposes, only contracts with a party external to the reporting entity (i.e., external to the economic entity or individual entity that is being reported on) can be designated as hedging instruments.**

Designation of Hedging Instruments

119. A qualifying instrument must be designated in its entirety as a hedging instrument. The only exceptions permitted are:

(a) Separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and not the change in its time value (see paragraphs 144 and AG322–AG326);

(b) Separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the value of the spot element of a forward contract and not the forward element; similarly, the foreign currency basis spread may be separated and excluded from the designation of a financial instrument as the hedging instrument (see paragraphs 145 and AG327–AG332); and

(c) A proportion of the entire hedging instrument, such as 50 percent of the nominal amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.

120. An entity may view in combination, and jointly designate as the hedging instrument, any combination of the following (including those circumstances in which the risk or risks arising from some hedging instruments offset those arising from others):

(a) Derivatives or a proportion of them; and

(b) Non-derivatives or a proportion of them.

121. However, a derivative instrument that combines a written option and a purchased option (for example, an interest rate collar) does not qualify as a hedging instrument if it is, in effect, a net written option at the date of designation (unless it qualifies in accordance with paragraph AG247). Similarly, two or more instruments (or proportions of them) may be jointly designated as the hedging instrument only if, in combination, they are not, in effect, a net written option at the date of designation (unless it qualifies in accordance with paragraph AG247).

Hedged Items

Qualifying Items

122. **A hedged item can be a recognized asset or liability, an unrecognized firm commitment, a forecast transaction or a net investment in a foreign operation. The hedged item can be:**

(a) **A single item; or**

(b) **A group of items (subject to paragraphs 146–151 and AG333–AG348).**

A hedged item can also be a component of such an item or group of items (see paragraphs 128 and AG256–AG274).

123. **The hedged item must be reliably measurable.**

124. **If a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable.**

125. **An aggregated exposure that is a combination of an exposure that could qualify as a hedged item in accordance with paragraph 122 and a derivative may be designated as a hedged item (see paragraphs AG252–AG253). This includes a forecast transaction of an aggregated exposure (i.e., uncommitted but anticipated future transactions that would give rise to an exposure and a derivative) if that aggregated exposure is highly probable and, once it has occurred and is therefore no longer forecast, is eligible as a hedged item.**

126. **For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions with a party external to the reporting entity can be designated as hedged items. Hedge accounting can be applied to transactions between entities in the same economic entity only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the economic entity, except for:**

(a) **The consolidated financial statements of an investment entity, as defined in IPSAS 35, where transactions between an investment entity and its controlled entities measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements; or**

(b) **The consolidated financial statements of a controlling entity of an investment entity, as defined in IPSAS 35 that is not itself an investment entity, where transactions between a controlled investment entity and the investments of a controlled investment entity measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements.**

127. However, as an exception to paragraph 126, the foreign currency risk of a monetary item within an economic entity (for example, a payable/receivable between two controlled entities) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. In accordance with IPSAS 4, foreign exchange rate gains and losses on monetary items within an economic entity are not fully eliminated on consolidation when the monetary item is transacted between two entities within the economic entity that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast transaction within the economic entity may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated surplus or deficit.

Designation of Hedged Items

128. An entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship. An entire item comprises all changes in the cash flows or fair value of an item. A component comprises less than the entire fair value change or cash flow variability of an item. In that case, an entity may designate only the following types of components (including combinations) as hedged items:

(a) Only changes in the cash flows or fair value of an item attributable to a specific risk or risks (risk component), provided that, based on an assessment within the context of the particular market structure, the risk component is separately identifiable and reliably measurable (see paragraphs AG257–AG264). Risk components include a designation of only changes in the cash flows or the fair value of a hedged item above or below a specified price or other variable (a one-sided risk).

(b) One or more selected contractual cash flows.

(c) Components of a nominal amount, i.e., a specified part of the amount of an item (see paragraphs AG265–AG269).

Qualifying Criteria for Hedge Accounting

129. **A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:**

(a) **The hedging relationship consists only of eligible hedging instruments and eligible hedged items.**

(b) **At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).**

(c) **The hedging relationship meets all of the following hedge effectiveness requirements:**

(i) **There is an economic relationship between the hedged item and the hedging instrument (see paragraphs AG278–AG280);**

(ii) **The effect of credit risk does not dominate the value changes that result from that economic relationship (see paragraphs AG281–AG282); and**

(iii) **The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However,**

that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognized or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting (see paragraphs AG283–AG285).

Accounting for Qualifying Hedging Relationships

130. **An entity applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 129 (which include the entity's decision to designate the hedging relationship).**

131. **There are three types of hedging relationships:**

(a) **Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or a component of any such item, that is attributable to a particular risk and could affect surplus or deficit.**

(b) **Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognized asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect surplus or deficit.**

(c) **Hedge of a net investment in a foreign operation as defined in IPSAS 4.**

132. If the hedged item is an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106, the hedged exposure referred to in paragraph 131(a) must be one that could affect net assets/equity. In that case, and only in that case, the recognized hedge ineffectiveness is presented in net assets/equity.

133. A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or a cash flow hedge.

134. **If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio (see paragraph 129(c)(iii)) but the risk management objective for that designated hedging relationship remains the same, an entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (this is referred to in this Standard as 'rebalancing'—see paragraphs AG300–AG314).**

135. **An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:**

(a) **As a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organization' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organization or a client of a clearing member of a clearing organization, that are acting as a counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties the requirement**

in this subparagraph is met only if each of those parties effects clearing with the same central counterparty.

(b) **Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.**

Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

136. An entity shall apply:

(a) Paragraph 139 when it discontinues hedge accounting for a fair value hedge for which the hedged item is (or is a component of) a financial instrument measured at amortized cost; and

(b) Paragraph 141 when it discontinues hedge accounting for cash flow hedges.

Fair Value Hedges

137. **As long as a fair value hedge meets the qualifying criteria in paragraph 129, the hedging relationship shall be accounted for as follows:**

(a) **The gain or loss on the hedging instrument shall be recognized in surplus or deficit (or net assets/equity, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106).**

(b) **The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognized in surplus or deficit. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through net assets/equity in accordance with paragraph 41, the hedging gain or loss on the hedged item shall be recognized in surplus or deficit. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106, those amounts shall remain in net assets/equity. When a hedged item is an unrecognized firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognized as an asset or a liability with a corresponding gain or loss recognized in surplus or deficit.**

138. When a hedged item in a fair value hedge is a firm commitment (or a component thereof) to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognized in the statement of financial position.

139. Any adjustment arising from paragraph 137(b) shall be amortized to surplus or deficit if the hedged item is a financial instrument (or a component thereof) measured at amortized cost. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses. The amortization is based on a recalculated effective interest rate at the date that amortization begins. In the case of a financial asset (or a component thereof) that is a hedged item and that is measured at fair value through net assets/equity in accordance with paragraph 41, amortization applies in the same manner but to the amount that represents the cumulative gain or loss previously recognized in accordance with paragraph 137(b) instead of by adjusting the carrying amount.

Cash Flow Hedges

140. **As long as a cash flow hedge meets the qualifying criteria in paragraph 129, the hedging relationship shall be accounted for as follows:**

(a) **The separate component of net assets/equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):**

(i) **The cumulative gain or loss on the hedging instrument from inception of the hedge; and**

(ii) **The cumulative change in fair value (present value) of the hedged item (i.e., the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.**

(b) **The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e., the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (a)) shall be recognized in net assets/equity.**

(c) **Any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a)) is hedge ineffectiveness that shall be recognized in surplus or deficit.**

(d) **The amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:**

(i) **If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see IPSAS 1) and hence it does not affect net assets/equity.**

(ii) **For cash flow hedges other than those covered by (i), that amount shall be reclassified from the cash flow hedge reserve to surplus or deficit as a reclassification adjustment (see paragraphs 125A–125C of IPSAS 1) in the same period or periods during which the hedged expected future cash flows affect surplus or deficit (for example, in the periods that interest revenue or interest expense is recognized or when a forecast sale occurs).**

(iii) **However, if that amount is a loss and an entity expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into surplus or deficit as a reclassification adjustment (see paragraphs 125A–125C of IPSAS 1).**

141. When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 135 and 136(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 140(a) as follows:

(a) If the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or until paragraph 140(d)(iii) applies. When the future cash flows occur, paragraph 140(d) applies.

(b) If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to surplus or deficit as a reclassification adjustment (see IPSAS 1). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedges of a Net Investment in a Foreign Operation

142. **Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see IPSAS 4), shall be accounted for similarly to cash flow hedges:**

(a) **The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in net assets/equity (see paragraph 140); and**

(b) **The ineffective portion shall be recognized in surplus or deficit.**

143. **The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in the foreign currency translation reserve shall be reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see IPSAS 1) in accordance with paragraphs 57–58 of IPSAS 4 on the disposal or partial disposal of the foreign operation.**

Accounting for the Time Value of Options

144. When an entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option (see paragraph 119(a)), it shall account for the time value of the option as follows (see paragraphs AG322–AG326):

(a) An entity shall distinguish the time value of options by the type of hedged item that the option hedges (see paragraph AG322):

(i) A transaction related hedged item; or

(ii) A time-period related hedged item.

(b) The change in fair value of the time value of an option that hedges a transaction related hedged item shall be recognized in net assets/equity to the extent that it relates to the hedged item and shall be accumulated in a separate component of net assets/equity. The cumulative change in fair value arising from the time value of the option that has been accumulated in a separate component of net assets/equity (the ‘amount’) shall be accounted for as follows:

(i) If the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of net assets/equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see IPSAS 1) and hence does not affect net assets/equity.

(ii) For hedging relationships other than those covered by (i), the amount shall be reclassified from the separate component of net assets/equity to surplus or deficit as a reclassification adjustment (see IPSAS 1) in the same period or periods during which the hedged expected future cash flows affect surplus or deficit (for example, when a forecast sale occurs).

(iii) However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into surplus or deficit as a reclassification adjustment (see IPSAS 1).

(c) The change in fair value of the time value of an option that hedges a time-period related hedged item shall be recognized in net assets/equity to the extent that it relates to the hedged item and shall be accumulated in a separate component of net assets/equity. The time value at the date of designation of the option as a hedging instrument, to the extent that it relates to the hedged item, shall be amortized on a systematic and rational basis over the period during which the hedge adjustment for the option’s

intrinsic value could affect surplus or deficit (or net assets/equity, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106). Hence, in each reporting period, the amortization amount shall be reclassified from the separate component of net assets/equity to surplus or deficit as a reclassification adjustment (see IPSAS 1). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (i.e., including cumulative amortization) that has been accumulated in the separate component of net assets/equity shall be immediately reclassified into surplus or deficit as a reclassification adjustment (see IPSAS 1).

Accounting for the Forward Element of Forward Contracts and Foreign Currency Basis Spreads of Financial Instruments

145. When an entity separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract, or when an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument (see paragraph 119(b)), the entity may apply paragraph 144 to the forward element of the forward contract or to the foreign currency basis spread in the same manner as it is applied to the time value of an option. In that case, the entity shall apply the application guidance in paragraphs AG327–AG332.

Hedges of a Group of Items

Eligibility of a Group of Items as the Hedged Item

146. **A group of items (including a group of items that constitute a net position; see paragraphs AG333–AG340) is an eligible hedged item only if:**

(a) **It consists of items (including components of items) that are, individually, eligible hedged items;**

(b) **The items in the group are managed together on a group basis for risk management purposes; and**

(c) **In the case of a cash flow hedge of a group of items whose variabilities in cash flows are not expected to be approximately proportional to the overall variability in cash flows of the group so that offsetting risk positions arise:**

(i) **It is a hedge of foreign currency risk; and**

(ii) **The designation of that net position specifies the reporting period in which the forecast transactions are expected to affect surplus or deficit, as well as their nature and volume (see paragraphs AG339–AG340).**

Designation of a Component of a Nominal Amount

147. A component that is a proportion of an eligible group of items is an eligible hedged item provided that designation is consistent with the entity's risk management objective.

148. A layer component of an overall group of items (for example, a bottom layer) is eligible for hedge accounting only if:

(a) It is separately identifiable and reliably measurable;

(b) The risk management objective is to hedge a layer component;

(c) The items in the overall group from which the layer is identified are exposed to the same hedged risk (so that the measurement of the hedged layer is not significantly affected by which particular items from the overall group form part of the hedged layer);

(d) For a hedge of existing items (for example, an unrecognized firm commitment or a recognized asset) an entity can identify and track the overall group of items from which the hedged layer is defined (so that the entity is able to comply with the requirements for the accounting for qualifying hedging relationships); and

(e) Any items in the group that contain prepayment options meet the requirements for components of a nominal amount (see paragraph AG269).

Presentation

149. For a hedge of a group of items with offsetting risk positions (i.e., in a hedge of a net position) whose hedged risk affects different line items in the statement of financial performance and statement of changes in net assets/equity, any hedging gains or losses in that statement shall be presented in a separate line from those affected by the hedged items. Hence, in that statement the amount in the line item that relates to the hedged item itself (for example, revenue or expenses) remains unaffected.

150. For assets and liabilities that are hedged together as a group in a fair value hedge, the gain or loss in the statement of financial position on the individual assets and liabilities shall be recognized as an adjustment of the carrying amount of the respective individual items comprising the group in accordance with paragraph 137(b).

Nil Net Positions

151. When the hedged item is a group that is a nil net position (i.e., the hedged items among themselves fully offset the risk that is managed on a group basis), an entity is permitted to designate it in a hedging relationship that does not include a hedging instrument, provided that:

(a) The hedge is part of a rolling net risk hedging strategy, whereby the entity routinely hedges new positions of the same type as time moves on (for example, when transactions move into the time horizon for which the entity hedges);

(b) The hedged net position changes in size over the life of the rolling net risk hedging strategy and the entity uses eligible hedging instruments to hedge the net risk (i.e., when the net position is not nil);

(c) Hedge accounting is normally applied to such net positions when the net position is not nil and it is hedged with eligible hedging instruments; and

(d) Not applying hedge accounting to the nil net position would give rise to inconsistent accounting outcomes, because the accounting would not recognize the offsetting risk positions that would otherwise be recognized in a hedge of a net position.

Option to Designate a Credit Exposure as Measured at Fair Value through Surplus or Deficit

Eligibility of Credit Exposures for Designation at Fair Value through Surplus or Deficit

152. **If an entity uses a credit derivative that is measured at fair value through surplus or deficit to manage the credit risk of all, or a part of, a financial instrument (credit exposure) it may designate that financial instrument to the extent that it is so managed (i.e., all or a proportion of it) as measured at fair value through surplus or deficit if:**

(a) **The name of the credit exposure (for example, the borrower, or the holder of a loan commitment) matches the reference entity of the credit derivative ('name matching'); and**

(b) **The seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative.**

An entity may make this designation irrespective of whether the financial instrument that is managed for credit risk is within the scope of this Standard (for example, an entity may designate loan commitments that are outside the scope of this Standard). The entity may designate that financial instrument at, or subsequent to, initial recognition, or while it is unrecognized. The entity shall document the designation concurrently.

Accounting for Credit Exposures Designated at Fair Value through Surplus or Deficit

153. If a financial instrument is designated in accordance with paragraph 152 as measured at fair value through surplus or deficit after its initial recognition, or was previously not recognized, the difference at the time of designation between the carrying amount, if any, and the fair value shall immediately be recognized in surplus or deficit. For financial assets measured at fair value through net assets/equity in accordance with paragraph 41, the cumulative gain or loss previously recognized in net assets/equity shall immediately be reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see IPSAS 1).

154. An entity shall discontinue measuring the financial instrument that gave rise to the credit risk, or a proportion of that financial instrument, at fair value through surplus or deficit if:

(a) The qualifying criteria in paragraph 152 are no longer met, for example:

(i) The credit derivative or the related financial instrument that gives rise to the credit risk expires or is sold, terminated or settled; or

(ii) The credit risk of the financial instrument is no longer managed using credit derivatives. For example, this could occur because of improvements in the credit quality of the borrower or the loan commitment holder or changes to capital requirements imposed on an entity; and

(b) The financial instrument that gives rise to the credit risk is not otherwise required to be measured at fair value through surplus or deficit (i.e., the entity's management model has not changed in the meantime so that a reclassification in accordance with paragraph 54 was required).

155. When an entity discontinues measuring the financial instrument that gives rise to the credit risk, or a proportion of that financial instrument, at fair value through surplus or deficit, that financial instrument's fair value at the date of discontinuation becomes its new carrying amount. Subsequently, the same measurement that was used before designating the financial instrument at fair value through surplus or deficit shall be applied (including amortization that results from the new carrying amount). For example, a financial asset that had originally been classified as measured at amortized cost would revert to that measurement and its effective interest rate would be recalculated based on its new gross carrying amount on the date of discontinuing measurement at fair value through surplus or deficit.

Temporary Exceptions from Applying Specific Hedge Accounting Requirements

155A. An entity shall apply paragraphs 155D–155L and paragraphs 156E and 184(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

(a) The interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) The timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

155B. For the purpose of applying paragraphs 155D–155L, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report, ‘Reforming Major Interest Rate Benchmarks’.[3]

155C. Paragraphs 155D–155L provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly Probable Requirement for Cash Flow Hedges

155D. For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 124, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the Amount Accumulated in the Cash Flow Hedge Reserve

155E. For the purpose of applying the requirement in paragraph 141 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the Economic Relationship between the Hedged Item and the Hedging Instrument

155F. For the purpose of applying the requirements in paragraphs 129(c)(i) and AG278–AG280, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a Component of an Item as a Hedged Item

155G. Unless paragraph 155H applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.

155H. When an entity, consistent with its hedge documentation, frequently resets (i.e., discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (i.e., the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of Application

155I. An entity shall prospectively cease applying paragraph 155D to a hedged item at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) When the hedging relationship that the hedged item is part of is discontinued.

[3] The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

155J. An entity shall prospectively cease applying paragraph 155E at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and

(b) When the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

155K. An entity shall prospectively cease applying paragraph 155F:

(a) To a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) To a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 155K(a) or the date specified in paragraph 155K(b), the entity shall prospectively cease applying paragraph 155F to that hedging relationship at the date of discontinuation.

155L. When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 155D–155F to an individual item or financial instrument in accordance with paragraphs 155I, 155J, or 155K, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

155M. An entity shall prospectively cease applying paragraphs 155G and 155H at the earlier of:

(a) When changes required by interest rate benchmark reform are made to the non-contractually specified risk component applying paragraph 155N; or

(b) When the hedging relationship in which the non-contractually specified risk component is designated is discontinued.

Additional Temporary Exceptions Arising from Interest Rate Benchmark Reform

155N. As and when the requirements in paragraphs 155D–155H cease to apply to a hedging relationship (see paragraphs 155I–155M), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 72B–72D. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) Designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or

(c) Amending the description of the hedging instrument.

155O. An entity also shall apply the requirement in paragraph 155N(c) if these three conditions are met:

(a) The entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 72B);

(b) The original hedging instrument is not derecognized; and

(c) The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 72C and 72D).

155P. The requirements in paragraphs 155D–155H may cease to apply at different times. Therefore, in applying paragraph 155N, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 155T–155Y as applicable. An entity also shall apply paragraph 137 (for a fair value hedge) or paragraph 140 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

155Q. An entity shall amend a hedging relationship as required in paragraph 155N by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

155R. If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 72B–72D) or to the designation of the hedging relationship (as required by paragraph 155N), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 155N.

155S. Paragraphs 155T–155Z provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 129, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for Qualifying Hedging Relationships

Cash Flow Hedges

155T. For the purpose of applying paragraph 140, at the point when an entity amends the description of a hedged item as required in paragraph 155N(b), the amount accumulated in the cash flow hedge reserve shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

155U. For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 141 in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of Items

155V. When an entity applies paragraph 155N to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 155N, the entity would designate the alternative benchmark rate as the hedged risk for

that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

155W. An entity shall assess separately whether each subgroup meets the requirements in paragraph 146 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraph 146, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 137 and 140 to account for ineffectiveness related to the hedging relationship in its entirety.

Designation of Risk Components

155X. An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable (see paragraphs 128(a) and AG257) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk component for the first time (ie the 24-month period applies on a rate-by-rate basis).

155Y. If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk component for the first time, the entity shall cease applying the requirement in paragraph 155X to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a non-contractually specified risk component.

155Z. In addition to those hedging relationships specified in paragraph 155N, an entity shall apply the requirements in paragraphs 155X and 155Y to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk component (see paragraphs 128(a) and AG257) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is designated.

Effective Date and Transition

Effective Date

156. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity elects to apply this Standard early, it must disclose that fact and apply all of the requirements in this Standard at the same time (but see also paragraph 179). It shall also, at the same time, apply the amendments in Appendix D.**

156A. ***Long-term Interests in Associates and Joint Ventures*** **(Amendments to IPSAS 36) and** ***Prepayment Features with Negative Compensation*** **(Amendments to IPSAS 41), issued in January 2019, added paragraphs 185–190 and AG74A and amended paragraphs AG73(b) and AG74(b). An entity shall apply these amendments for annual periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

156B. **Paragraphs 155A–155L were added and paragraph 184 was amended by** ***Improvements to IPSAS, 2021*****, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

156C. **Paragraphs 72A–72E, 155M–155Z, and 191-194 were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

156D. **Paragraph AG46 was amended and paragraphs AG46A and 195 were added by *Improvements to IPSAS, 2021*, issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

156E. **Paragraphs 2, 87, AG198 and AG210 were amended by IPSAS 43 issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

156F. **Paragraphs 9, 66, AG31, AG38, AG115 and AG117 were amended, paragraphs AG143A–AG143AB were added, and paragraphs 67, 68 and AG144–AG155 were deleted by IPSAS 46, *Measurement* issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

156G. **Paragraphs 2, 3, 37, 45, 60, 87 and its related heading, AG2, AG5, AG6, AG33, AG34, AG43, AG44, AG114 and its related heading, AG124, AG125, AG129, AG132, AG133, and AG158 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

156H. **Paragraph AG2 was amended by IPSAS 49, *Retirement Benefit* Plans issued in November 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact.**

156I. **Paragraphs AG124, AG130, AG135, and AG136 are amended by Part 3 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

157. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

158. An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 161–184. This Standard shall not be applied to items that have already been derecognized at the date of initial application.

159. For the purposes of the transition provisions in paragraphs 158, 160–184, the date of initial application is the date when an entity first applies those requirements of this Standard and must be the beginning of a reporting period after the issue of this Standard.

Transition for Classification and Measurement

160. At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraphs 40(a) or 41(a) on the basis of the facts and circumstances that exist at that date. The resulting classification shall be applied retrospectively irrespective of the entity's management model in prior reporting periods.

161. If, at the date of initial application, it is impracticable (as defined in IPSAS 3) for an entity to assess a modified time value of money element in accordance with paragraphs AG68–AG70 on the basis of the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG68–AG70. (See also paragraph 49R of IPSAS 30.)

162. If, at the date of initial application, it is impracticable (as defined in IPSAS 3) for an entity to assess whether the fair value of a prepayment feature was insignificant in accordance with paragraph AG74(c) on the basis of the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG74. (See also paragraph 49S of IPSAS 30.)

163. If an entity measures a hybrid contract at fair value in accordance with paragraphs 41, 43 or 44 but the fair value of the hybrid contract had not been measured in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (i.e., the non-derivative host and the embedded derivative) at the end of each comparative reporting period if the entity restates prior periods (see paragraph 173).

164. If an entity has applied paragraph 163 then at the date of initial application the entity shall recognize any difference between the fair value of the entire hybrid contract at the date of initial application and the sum of the fair values of the components of the hybrid contract at the date of initial application in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the reporting period that includes the date of initial application.

165. At the date of initial application an entity may designate:

(a) A financial asset as measured at fair value through surplus or deficit in accordance with paragraph 44; or

(b) An investment in an equity instrument as at fair value through net assets/equity in accordance with paragraph 106.

Such a designation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

166. At the date of initial application an entity:

(a) Shall revoke its previous designation of a financial asset as measured at fair value through surplus or deficit if that financial asset does not meet the condition in paragraph 44.

(b) May revoke its previous designation of a financial asset as measured at fair value through surplus or deficit if that financial asset meets the condition in paragraph 44.

Such a revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

167. At the date of initial application, an entity:

(a) May designate a financial liability as measured at fair value through surplus or deficit in accordance with paragraph 46(a).

(b) Shall revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if such designation was made at initial recognition in accordance with the condition now in paragraph 46(a) and such designation does not satisfy that condition at the date of initial application.

(c) May revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if such designation was made at initial recognition in accordance with the condition now in paragraph 46(a) and such designation satisfies that condition at the date of initial application.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

168. If it is impracticable (as defined in IPSAS 3) for an entity to apply retrospectively the effective interest method, the entity shall treat:

(a) The fair value of the financial asset or the financial liability at the end of each comparative period presented as the gross carrying amount of that financial asset or the amortized cost of that financial liability if the entity restates prior periods; and

(b) The fair value of the financial asset or the financial liability at the date of initial application as the new gross carrying amount of that financial asset or the new amortized cost of that financial liability at the date of initial application of this Standard.

169. If an entity previously accounted at cost (in accordance with IPSAS 29), for an investment in an equity instrument that does not have a quoted price in an active market for an identical instrument (i.e., a Level 1 input) (or for a derivative asset that is linked to and must be settled by delivery of such an equity instrument) it shall measure that instrument at fair value at the date of initial application. Any difference between the previous carrying amount and the fair value shall be recognized in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the reporting period that includes the date of initial application.

170. If an entity previously accounted for a derivative liability that is linked to, and must be settled by, delivery of an equity instrument that does not have a quoted price in an active market for an identical instrument (i.e., a Level 1 input) at cost in accordance with IPSAS 29, it shall measure that derivative liability at fair value at the date of initial application. Any difference between the previous carrying amount and the fair value shall be recognized in the opening net assets/equity of the reporting period that includes the date of initial application.

171. At the date of initial application, an entity shall determine whether the treatment in paragraph 108 would create or enlarge an accounting mismatch in surplus or deficit on the basis of the facts and circumstances that exist at the date of initial application. This Standard shall be applied retrospectively on the basis of that determination.

172. At the date of initial application, an entity is permitted to make the designation in paragraph 6 for contracts that already exist on the date but only if it designates all similar contracts. The change in the net assets resulting from such designations shall be recognized in net assets/equity at the date of initial application.

173. Despite the requirement in paragraph 158, an entity that adopts the classification and measurement requirements of this Standard (which include the requirements related to amortized cost measurement for financial assets and impairment in paragraphs 69–72 and paragraphs 73–93) shall provide the disclosures set out in paragraphs 49L–49O of IPSAS 30 but need not restate prior periods. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the

entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. However, if an entity restates prior periods, the restated financial statements must reflect all of the requirements in this Standard.

174. If an entity prepares interim financial reports, the entity need not apply the requirements in this Standard to interim periods prior to the date of initial application if it is impracticable (as defined in IPSAS 3).

Impairment

175. An entity shall apply the impairment requirements in paragraphs 73–93 retrospectively in accordance with IPSAS 3 subject to paragraphs 173 and 176–178.

176. At the date of initial application, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognized (or for loan commitments and financial guarantee contracts at the date that the entity became a party to the irrevocable commitment in accordance with paragraph 78) and compare that to the credit risk at the date of initial application of this Standard.

177. When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:

(a) The requirements in paragraphs 82 and AG186–AG188; and

(b) The rebuttable presumption in paragraph 83 for contractual payments that are more than 30 days past due if an entity will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

178. If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, an entity shall recognize a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized (unless that financial instrument is low credit risk at a reporting date, in which case paragraph 177(a) applies).

Transition for Hedge Accounting

179. When an entity first applies this Standard, it may choose as its accounting policy to continue to apply the hedge accounting requirements of IPSAS 29 instead of the requirements in paragraphs 113–155 of this Standard. An entity shall apply that policy to all of its hedging relationships. An entity that chooses that policy shall also apply Appendix C of IPSAS 29.

180. Except as provided in paragraph 184, an entity shall apply the hedge accounting requirements of this Standard prospectively.

181. To apply hedge accounting from the date of initial application of the hedge accounting requirements of this Standard, all qualifying criteria must be met as at that date.

182. Hedging relationships that qualified for hedge accounting in accordance with IPSAS 29 that also qualify for hedge accounting in accordance with the criteria of this Standard (see paragraph 129), after taking into account any rebalancing of the hedging relationship on transition (see paragraph 183(b))), shall be regarded as continuing hedging relationships.

183. On initial application of the hedge accounting requirements of this Standard, an entity:

(a) May start to apply those requirements from the same point in time as it ceases to apply the hedge accounting requirements of IPSAS 29; and

(b) Shall consider the hedge ratio in accordance with IPSAS 29 as the starting point for rebalancing the hedge ratio of a continuing hedging relationship, if applicable. Any gain or loss from such a rebalancing shall be recognized in surplus or deficit.

184. As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

(a) Shall apply the accounting for the time value of options in accordance with paragraph 144 retrospectively if, in accordance with IPSAS 29, only the change in an option's intrinsic value was designated as a hedging instrument in a hedging relationship. This retrospective application applies only to those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter.

(b) May apply the accounting for the forward element of forward contracts in accordance with paragraph 145 retrospectively if, in accordance with IPSAS 29, only the change in the spot element of a forward contract was designated as a hedging instrument in a hedging relationship. This retrospective application applies only to those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter. In addition, if an entity elects retrospective application of this accounting, it shall be applied to all hedging relationships that qualify for this election (i.e., on transition this election is not available on a hedging-relationship-by-hedging-relationship basis). The accounting for foreign currency basis spreads (see paragraph 145) may be applied retrospectively for those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter.

(c) Shall apply retrospectively the requirement of paragraph 135 that there is not an expiration or termination of the hedging instrument if:

(i) As a consequence of laws or regulations, or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and

(ii) Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty.

(d) Shall apply the requirements in paragraphs 155A–155L retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

Transition for Prepayment Features with Negative Compensation

185. **An entity shall apply *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) retrospectively in accordance with IPSAS 3, except as specified in paragraphs 186–190.**

186. **An entity that first applies these amendments at the same time it first applies this Standard shall apply paragraphs 157–183 instead of paragraphs 187–190.**

187. **An entity that first applies these amendments after it first applies this Standard shall apply paragraphs 188–190. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).**

188. **With regard to designating a financial asset or financial liability as measured at fair value through surplus or deficit, an entity:**

(a) **Shall revoke its previous designation of a financial asset as measured at fair value through surplus or deficit if that designation was previously made in accordance with the condition in paragraph 44 but that condition is no longer satisfied as a result of the application of these amendments;**

(b) **May designate a financial asset as measured at fair value through surplus or deficit if that designation would not have previously satisfied the condition in paragraph 44 but that condition is now satisfied as a result of the application of these amendments;**

(c) **Shall revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if that designation was previously made in accordance with the condition in paragraph 46(a) but that condition is no longer satisfied as a result of the application of these amendments; and**

(d) **May designate a financial liability as measured at fair value through surplus or deficit if that designation would not have previously satisfied the condition in paragraph 46(a) but that condition is now satisfied as a result of the application of these amendments.**

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.

189. **An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in this Standard. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.**

190. **In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that were affected by these amendments:**

(a) **The previous measurement category and carrying amount determined immediately before applying these amendments;**

(b) **The new measurement category and carrying amount determined after applying these amendments;**

(c) **The carrying amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through surplus or deficit but are no longer so designated; and**

(d) **The reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through surplus or deficit.**

Transition for Interest Rate Benchmark Reform—Phase 2

191. An entity shall apply *Interest Rate Benchmark Reform—Phase 2* amendments retrospectively in accordance with IPSAS 3, except as specified in paragraphs 192–194.

192. An entity shall designate a new hedging relationship (for example, as described in paragraph 155Z) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) The entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) At the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

193. If, in applying paragraph 192, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 155X and 155Y to the date the alternative benchmark rate is designated as a non-contractually specified risk component for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of initial application of these amendments).

194. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening net assets/equity (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Transition for Improvements to IPSAS, 2021

195. An entity shall apply *Improvements to IPSAS, 2021* to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 41.

Scope

AG1. Some contracts require a payment based on climatic, geological or other physical variables. (Those based on climatic variables are sometimes referred to as 'weather derivatives'.) If those contracts are not insurance contracts, they are within the scope of this Standard.

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with IPSAS 49, *Retirement Benefit Plans*, and royalty agreements based on the volume of sales or service revenues that are accounted for under IPSAS 47, Revenue.

AG3. Sometimes, an entity makes what it views as a 'strategic investment' in equity instruments issued by another entity, with the management model of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. The investor or joint venturer entity uses IPSAS 36, *Investments in Associates and Joint Ventures* to determine whether the equity method of accounting shall be applied to such an investment.

AG4. This Standard applies to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2(e) excludes because they arise from insurance contracts. An entity does however apply this Standard to:

(a) Financial guarantee contracts, except those where the issuer elects to treat such contracts as insurance contracts in accordance with IPSAS 28; and

(b) Embedded derivatives included in insurance contracts.

An entity may, but is not required to, apply this Standard to other insurance contracts that involve the transfer of financial risk.

AG5. Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2(e)):

(a) Although a financial guarantee contract meets the definition of an insurance contract in the scope of the relevant international or national accounting standard dealing with insurance contracts if the risk transferred is significant, the issuer applies this Standard. Nevertheless, an entity may elect, under certain circumstances, to treat financial guarantee contracts as insurance contracts of financial instruments using IPSAS 28 if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or the relevant international or national accounting standard on insurance contracts to such financial guarantee contracts. If this Standard applies, paragraph 57 requires the issuer to recognize a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 26–34 and AG32–AG38 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

(i) The amount determined in accordance with paragraphs 73–93; and

(ii) The amount initially recognized less, when appropriate, the cumulative amount of revenue recognized in accordance with the principles of IPSAS 47 (see paragraph 45(c)).

(b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in this Standard, and are not insurance contracts. Such guarantees are derivatives and the issuer applies this Standard to them.

(c) If a financial guarantee contract was issued in connection with the provision of goods, the issuer applies IPSAS 47 in determining when it recognizes the revenue from the guarantee and from the provision of goods.

AG6. A right from a revenue transaction that meets the definition of an asset is initially recognized and measured in accordance with IPSAS 47. Similarly, an obligation from a revenue transaction that meets the definition of a liability is initially recognized and measured in accordance with IPSAS 47. After initial recognition, if circumstances indicate that recognition of a liability in accordance with IPSAS 47 is no longer appropriate, an entity considers whether a financial liability should be recognized in accordance with this Standard. Other liabilities that may arise from revenue transactions are recognized and measured in accordance with this Standard if they meet the definition of a financial liability in IPSAS 28.

Definitions

Derivatives

AG7. Typical examples of derivatives are futures and forward, swap and option contracts. A derivative usually has a notional amount, which is an amount of currency, a number of shares, a number of units of weight or volume or other units specified in the contract. However, a derivative instrument does not require the holder or writer to invest or receive the notional amount at the inception of the contract. Alternatively, a derivative could require a fixed payment or payment of an amount that can change (but not proportionally with a change in the underlying) as a result of some future event that is unrelated to a notional amount. For example, a contract may require a fixed payment of CU1,000 if the six-month interbank offered rate increases by 100 basis points. Such a contract is a derivative even though a notional amount is not specified.

AG8. The definition of a derivative in this Standard includes contracts that are settled gross by delivery of the underlying item (e.g., a forward contract to purchase a fixed rate debt instrument). An entity may have a contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument or by exchanging financial instruments (e.g., a contract to buy or sell a commodity at a fixed price at a future date). Such a contract is within the scope of this Standard unless it was entered into and continues to be held for the purpose of delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard applies to such contracts for an entity's expected purchase, sale or usage requirements if the entity makes a designation in accordance with paragraph 6 (see paragraphs 5–8).

AG9. One of the defining characteristics of a derivative is that it has an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. An option contract meets that definition because the premium is less than the investment that would be required to obtain the underlying financial instrument to which the option is linked. A currency swap that requires an initial exchange of different currencies of equal fair values meets the definition because it has a zero initial net investment.

AG10. A regular way purchase or sale gives rise to a fixed price commitment between trade date and settlement date that meets the definition of a derivative. However, because of the short duration of the commitment it is not recognized as a derivative financial instrument. Instead, this Standard provides for special accounting for such regular way contracts (see paragraphs 11 and AG17–AG20).

AG11. The definition of a derivative refers to non-financial variables that are not specific to a party to the contract. These include an index of earthquake losses in a particular region and an index of temperatures in a particular city. Non-financial variables specific to a party to the contract include the occurrence or non-occurrence of a fire that damages or destroys an asset of a party to the contract. A change in the fair value of a non-financial asset is specific to the owner if the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of the specific non-financial asset held (a non-financial variable). For example, if a guarantee of the residual value of a specific car exposes the guarantor to the risk of changes in the car's physical condition, the change in that residual value is specific to the owner of the car.

Financial Assets and Liabilities Held for Trading

AG12. Trading generally reflects active and frequent buying and selling, and financial instruments held for trading generally are used with the objective of generating a profit from short-term fluctuations in price or dealer's margin.

AG13. Financial liabilities held for trading include:

(a) Derivative liabilities that are not accounted for as hedging instruments;

(b) Obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it has borrowed and does not yet own);

(c) Financial liabilities that are incurred with a management model to repurchase them in the near term (e.g., a quoted debt instrument that the issuer may buy back in the near term depending on changes in its fair value); and

(d) Financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

AG14. The fact that a liability is used to fund trading activities does not in itself make that liability one that is held for trading.

Recognition and Derecognition

Initial Recognition

AG15. As a consequence of the principle in paragraph 10, an entity recognizes all of its contractual rights and obligations under derivatives in its statement of financial position as assets and liabilities, respectively, except for derivatives that prevent a transfer of financial assets from being accounted for as a sale (see paragraph AG35). If a transfer of a financial asset does not qualify for derecognition, the transferee does not recognize the transferred asset as its asset (see paragraph AG36).

AG16. The following are examples of applying the principle in paragraph 10:

(a) Unconditional receivables and payables are recognized as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.

(b) Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognized until at least one of the parties has performed under the agreement. For example, an entity that receives a firm order does not generally recognize an asset

(and the entity that places the order does not recognize a liability) at the time of the commitment but, instead, delays recognition until the ordered goods or services have been shipped, delivered or rendered. If a firm commitment to buy or sell non-financial items is within the scope of this Standard in accordance with paragraphs 5–8, its net fair value is recognized as an asset or a liability on the commitment date (see paragraph AG92(c)). In addition, if a previously unrecognized firm commitment is designated as a hedged item in a fair value hedge, any change in the net fair value attributable to the hedged risk is recognized as an asset or a liability after the inception of the hedge (see paragraphs 137(b) and 138).

(c) A forward contract that is within the scope of this Standard (see paragraph 2) is recognized as an asset or a liability on the commitment date, instead of on the date on which settlement takes place. When an entity becomes a party to a forward contract, the fair values of the right and obligation are often equal, so that the net fair value of the forward is zero. If the net fair value of the right and obligation is not zero, the contract is recognized as an asset or liability.

(d) Option contracts that are within the scope of this Standard (see paragraph 2) are recognized as assets or liabilities when the holder or writer becomes a party to the contract.

(e) Planned future transactions, no matter how likely, are not assets and liabilities because the entity has not become a party to a contract.

Regular Way Purchase or Sale of Financial Assets

AG17. A regular way purchase or sale of financial assets is recognized using either trade date accounting or settlement date accounting as described in paragraphs AG19 and AG20. An entity shall apply the same method consistently for all purchases and sales of financial assets that are classified in the same way in accordance with this Standard. For this purpose assets that are mandatorily measured at fair value through surplus or deficit form a separate classification from assets designated as measured at fair value through surplus or deficit. In addition, investments in equity instruments accounted for using the option provided in paragraph 106 form a separate classification.

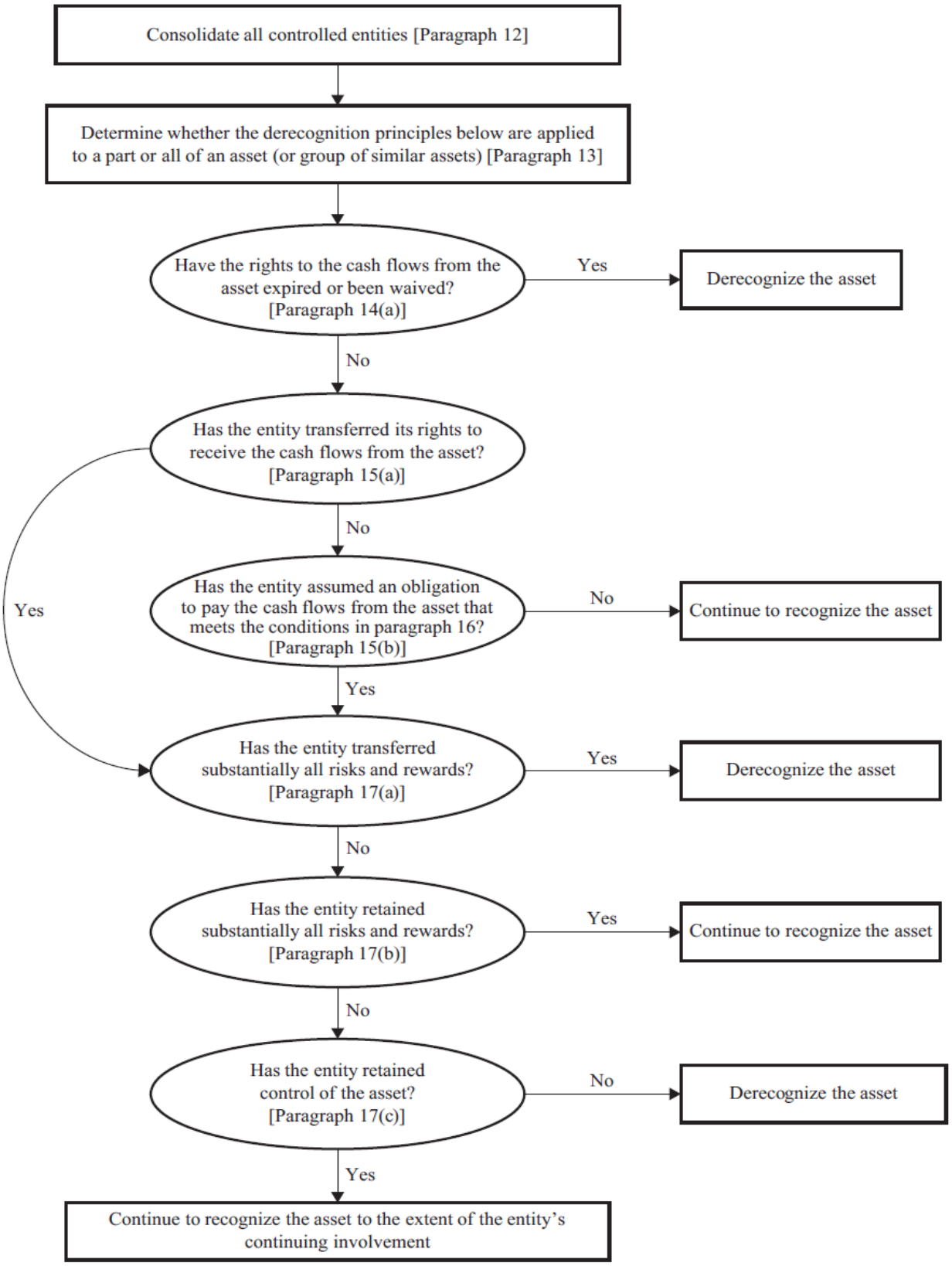
AG18. A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

AG19. The trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

AG20. The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity. When settlement date accounting is applied an entity accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. In other words, the change in value is not recognized for assets measured at amortized cost; it is recognized in surplus or deficit for assets classified as financial assets measured at fair value through surplus or deficit; and it is recognized in net assets/equity for financial assets measured at fair value through net assets/equity in accordance with paragraph 41 and for investments in equity instruments accounted for in accordance with paragraph 106.

Derecognition of Financial Assets

AG21. The following flow chart illustrates the evaluation of whether and to what extent a financial asset is derecognized.



Arrangements Under which an Entity Retains the Contractual Rights to Receive the Cash Flows of a Financial Asset, but Assumes a Contractual Obligation to Pay the Cash Flows to One or More Recipients (paragraph 15(b))

AG22. The situation described in paragraph 15(b) (when an entity retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients) occurs, for example, if the entity is a trust, and issues to investors beneficial interests in the underlying financial assets that it owns and provides servicing of those financial assets. In that case, the financial assets qualify for derecognition if the conditions in paragraphs 16 and 17 are met.

AG23. In applying paragraph 16, the entity could be, for example, the originator of the financial asset, or it could be an economic entity that includes a controlled entity that has acquired the financial asset and passes on cash flows to unrelated third party investors.

Evaluation of the Transfer of Risks and Rewards of Ownership (paragraph 17)

AG24. Examples of when an entity has transferred substantially all the risks and rewards of ownership are:

(a) An unconditional sale of a financial asset;

(b) A sale of a financial asset together with an option to repurchase the financial asset at its fair value at the time of repurchase; and

(c) A sale of a financial asset together with a put or call option that is deeply out of the money (i.e., an option that is so far out of the money it is highly unlikely to go into the money before expiry).

AG25. Examples of when an entity has retained substantially all the risks and rewards of ownership are:

(a) A sale and repurchase transaction where the repurchase price is a fixed price or the sale price plus a lender’s return;

(b) A securities lending agreement;

(c) A sale of a financial asset together with a total return swap that transfers the market risk exposure back to the entity;

(d) A sale of a financial asset together with a deep in-the-money put or call option (i.e., an option that is so far in the money that it is highly unlikely to go out of the money before expiry); and

(e) A sale of short-term receivables in which the entity guarantees to compensate the transferee for credit losses that are likely to occur.

AG26. If an entity determines that as a result of the transfer, it has transferred substantially all the risks and rewards of ownership of the transferred asset, it does not recognize the transferred asset again in a future period, unless it reacquires the transferred asset in a new transaction.

Evaluation of the Transfer of Control

AG27. An entity has not retained control of a transferred asset if the transferee has the practical ability to sell the transferred asset. An entity has retained control of a transferred asset if the transferee does not have the practical ability to sell the transferred asset. A transferee has the practical ability to sell the transferred asset if it is traded in an active market because the transferee could repurchase the transferred asset in the market if it needs to return the asset to the entity. For example, a transferee may have the practical ability to sell a transferred asset if the transferred asset is subject to an option that allows the entity to repurchase it, but the transferee can readily obtain the transferred asset in the market if the option is exercised. A transferee does not have the practical ability to sell the transferred asset if the entity retains such an option and the transferee cannot readily obtain the transferred asset in the market if the entity exercises its option.

AG28. The transferee has the practical ability to sell the transferred asset only if the transferee can sell the transferred asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer. The critical question is what the transferee is able to do in practice, not what contractual rights the transferee has concerning what it can do with the transferred asset or what contractual prohibitions exist. In particular:

(a) A contractual right to dispose of the transferred asset has little practical effect if there is no market for the transferred asset, and

(b) An ability to dispose of the transferred asset has little practical effect if it cannot be exercised freely. For that reason:

(i) The transferee's ability to dispose of the transferred asset must be independent of the actions of others (i.e., it must be a unilateral ability), and

(ii) The transferee must be able to dispose of the transferred asset without needing to attach restrictive conditions or "strings" to the transfer (e.g., conditions about how a loan asset is serviced or an option giving the transferee the right to repurchase the asset).

AG29. That the transferee is unlikely to sell the transferred asset does not, of itself, mean that the transferor has retained control of the transferred asset. However, if a put option or guarantee constrains the transferee from selling the transferred asset, then the transferor has retained control of the transferred asset. For example, if a put option or guarantee is sufficiently valuable it constrains the transferee from selling the transferred asset because the transferee would, in practice, not sell the transferred asset to a third party without attaching a similar option or other restrictive conditions. Instead, the transferee would hold the transferred asset so as to obtain payments under the guarantee or put option. Under these circumstances the transferor has retained control of the transferred asset.

Transfers that Qualify for Derecognition

AG30. An entity may retain the right to a part of the interest payments on transferred assets as compensation for servicing those assets. The part of the interest payments that the entity would give up upon termination or transfer of the servicing contract is allocated to the servicing asset or servicing liability. The part of the interest payments that the entity would not give up is an interest-only strip receivable. For example, if the entity would not give up any interest upon termination or transfer of the servicing contract, the entire interest spread is an interest-only strip receivable. For the purposes of applying paragraph 24, the fair values of the servicing asset and interest-only strip receivable are used to allocate the carrying amount of the receivable between the part of the asset that is derecognized and the part that continues to be recognized. If there is no servicing fee specified or the fee to be received is not expected to compensate the entity adequately for performing the servicing, a liability for the servicing obligation is recognized at fair value.

AG31. When measuring the fair values of the part that continues to be recognized and the part that is derecognized for the purposes of applying paragraph 24, an entity applies the fair value measurement requirements in IPSAS 46 in addition to paragraph 25.

Transfers that do not Qualify for Derecognition

AG32. The following is an application of the principle outlined in paragraph 26. If a guarantee provided by the entity for default losses on the transferred asset prevents a transferred asset from being derecognized because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Sale of Future Flows Arising from a Sovereign Right

AG33. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation, that have not previously been recognized as assets. An entity recognizes the revenue arising from such transactions in accordance with IPSAS 47. Such transactions may give rise to financial liabilities as defined in IPSAS 28. Examples of such financial liabilities may include but are not limited to borrowings, financial guarantees, liabilities arising from a servicing or administrative contract, or payables relating to cash collected on behalf of the purchasing entity. Financial liabilities shall be recognized when the entity becomes party to the contractual provisions of the instrument in accordance with paragraph 10 and classified in accordance with paragraphs 45 and 46. The financial liabilities shall be initially recognized in accordance with paragraph 57, and subsequently measured in accordance with paragraphs 62 and 63.

Continuing Involvement in Transferred Assets

AG34. The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 27.

All Assets

(a) If a guarantee provided by an entity through a contract to pay for default losses on a transferred asset prevents the transferred asset from being derecognized to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay (‘the guarantee amount’). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognized in surplus or deficit when (or as) the compliance obligation is satisfied (in accordance with the principles of IPSAS 47) and the carrying value of the asset is reduced by any loss allowance.

Assets Measured at Amortized Cost

(b) If a put option obligation written by an entity or call option right held by an entity prevents a transferred asset from being derecognized and the entity measures the transferred asset at amortized cost, the associated liability is measured at its cost (i.e., the consideration received) adjusted for the amortization of any difference between that cost and the gross carrying amount of the transferred asset at the expiration date of the option. For example, assume that the gross carrying amount of the asset on the date of the transfer is CU98 and that the consideration received is CU95. The gross carrying amount of the asset on the option exercise date will be CU100. The initial carrying amount of the associated liability is CU95 and the difference between CU95 and CU100 is recognized in surplus or deficit using the effective interest method. If the option is exercised, any difference between the carrying amount of the associated liability and the exercise price is recognized in surplus or deficit.

Assets Measured at Fair Value

(c) If a call option right retained by an entity prevents a transferred asset from being derecognized and the entity measures the transferred asset at fair value, the asset continues to be measured at its fair value. The associated liability is measured at (i) the option exercise price less the time value of the option if the option is in or at the money, or (ii) the fair value of the transferred asset less the time value of the option if the option is out of the money. The adjustment to the measurement of the associated liability ensures that the net carrying amount of the asset and the associated liability is the fair value of the call option right. For example, if the fair value of the underlying asset is CU80, the option exercise price is CU95 and the time value of the option is CU5, the carrying amount of the associated liability is CU75 (CU80 – CU5) and the carrying amount of the transferred asset is CU80 (i.e., its fair value).

(d) If a put option written by an entity prevents a transferred asset from being derecognized and the entity measures the transferred asset at fair value, the associated liability is measured at the option exercise

price plus the time value of the option. The measurement of the asset at fair value is limited to the lower of the fair value and the option exercise price because the entity has no right to increases in the fair value of the transferred asset above the exercise price of the option. This ensures that the net carrying amount of the asset and the associated liability is the fair value of the put option obligation. For example, if the fair value of the underlying asset is CU120, the option exercise price is CU100 and the time value of the option is CU5, the carrying amount of the associated liability is CU105 (CU100 + CU5) and the carrying amount of the asset is CU100 (in this case the option exercise price).

(e) If a collar, in the form of a purchased call and written put, prevents a transferred asset from being derecognized and the entity measures the asset at fair value, it continues to measure the asset at fair value. The associated liability is measured at (i) the sum of the call exercise price and fair value of the put option less the time value of the call option, if the call option is in or at the money, or (ii) the sum of the fair value of the asset and the fair value of the put option less the time value of the call option if the call option is out of the money. The adjustment to the associated liability ensures that the net carrying amount of the asset and the associated liability is the fair value of the options held and written by the entity. For example, assume an entity transfers a financial asset that is measured at fair value while simultaneously purchasing a call with an exercise price of CU120 and writing a put with an exercise price of CU80. Assume also that the fair value of the asset is CU100 at the date of the transfer. The time value of the put and call are CU1 and CU5 respectively. In this case, the entity recognizes an asset of CU100 (the fair value of the asset) and a liability of CU96 [(CU100 + CU1) – CU5]. This gives a net asset value of CU4, which is the fair value of the options held and written by the entity.

All Transfers

AG35. To the extent that a transfer of a financial asset does not qualify for derecognition, the transferor's contractual rights or obligations related to the transfer are not accounted for separately as derivatives if recognizing both the derivative and either the transferred asset or the liability arising from the transfer would result in recognizing the same rights or obligations twice. For example, a call option retained by the transferor may prevent a transfer of financial assets from being accounted for as a sale. In that case, the call option is not separately recognized as a derivative asset.

AG36. To the extent that a transfer of a financial asset does not qualify for derecognition, the transferee does not recognize the transferred asset as its asset. The transferee derecognizes the cash or other consideration paid and recognizes a receivable from the transferor. If the transferor has both a right and an obligation to reacquire control of the entire transferred asset for a fixed amount (such as under a repurchase agreement), the transferee may measure its receivable at amortized cost if it meets the criteria in paragraph 40.

Examples

AG37. The following examples illustrate the application of the derecognition principles of this Standard.

(a) Repurchase agreements and securities lending. If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized because the transferor retains substantially all the risks and rewards of ownership. If the transferee obtains the right to sell or pledge the asset, the transferor reclassifies the asset in its statement of financial position, for example, as a loaned asset or repurchase receivable.

(b) Repurchase agreements and securities lending—assets that are substantially the same. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a lender's return or if a financial asset is borrowed or loaned under an agreement to return the same or substantially the same asset to the transferor, it is not derecognized because the transferor retains substantially all the risks and rewards of ownership.

(c) Repurchase agreements and securities lending—right of substitution. If a repurchase agreement at a fixed repurchase price or a price equal to the sale price plus a lender's return, or a similar securities lending transaction, provides the transferee with a right to substitute assets that are similar and of equal fair value to the transferred asset at the repurchase date, the asset sold or lent under a repurchase or securities lending transaction is not derecognized because the transferor retains substantially all the risks and rewards of ownership.

(d) Repurchase right of first refusal at fair value. If an entity sells a financial asset and retains only a right of first refusal to repurchase the transferred asset at fair value if the transferee subsequently sells it, the entity derecognizes the asset because it has transferred substantially all the risks and rewards of ownership.

(e) Wash sale transaction. The repurchase of a financial asset shortly after it has been sold is sometimes referred to as a wash sale. Such a repurchase does not preclude derecognition provided that the original transaction met the derecognition requirements. However, if an agreement to sell a financial asset is entered into concurrently with an agreement to repurchase the same asset at a fixed price or the sale price plus a lender's return, then the asset is not derecognized.

(f) Put options and call options that are deeply in the money. If a transferred financial asset can be called back by the transferor and the call option is deeply in the money, the transfer does not qualify for derecognition because the transferor has retained substantially all the risks and rewards of ownership. Similarly, if the financial asset can be put back by the transferee and the put option is deeply in the money, the transfer does not qualify for derecognition because the transferor has retained substantially all the risks and rewards of ownership.

(g) Put options and call options that are deeply out of the money. A financial asset that is transferred subject only to a deep out-of-the-money put option held by the transferee or a deep out-of-the-money call option held by the transferor is derecognized. This is because the transferor has transferred substantially all the risks and rewards of ownership.

(h) Readily obtainable assets subject to a call option that is neither deeply in the money nor deeply out of the money. If an entity holds a call option on an asset that is readily obtainable in the market and the option is neither deeply in the money nor deeply out of the money, the asset is derecognized. This is because the entity (i) has neither retained nor transferred substantially all the risks and rewards of ownership, and (ii) has not retained control. However, if the asset is not readily obtainable in the market, derecognition is precluded to the extent of the amount of the asset that is subject to the call option because the entity has retained control of the asset.

(i) A not readily obtainable asset subject to a put option written by an entity that is neither deeply in the money nor deeply out of the money. If an entity transfers a financial asset that is not readily obtainable in the market, and writes a put option that is not deeply out of the money, the entity neither retains nor transfers substantially all the risks and rewards of ownership because of the written put option. The entity retains control of the asset if the put option is sufficiently valuable to prevent the transferee from selling the asset, in which case the asset continues to be recognized to the extent of the transferor's continuing involvement (see paragraph AG29). The entity transfers control of the asset if the put option is not sufficiently valuable to prevent the transferee from selling the asset, in which case the asset is derecognized.

(j) Assets subject to a fair value put or call option or a forward repurchase agreement. A transfer of a financial asset that is subject only to a put or call option or a forward repurchase agreement that has an exercise or repurchase price equal to the fair value of the financial asset at the time of repurchase results in derecognition because of the transfer of substantially all the risks and rewards of ownership.

(k) Cash-settled call or put options. An entity evaluates the transfer of a financial asset that is subject to a put or call option or a forward repurchase agreement that will be settled net in cash to determine whether it has retained or transferred substantially all the risks and rewards of ownership. If the entity has not retained substantially all the risks and rewards of ownership of the transferred asset, it determines whether it has retained control of the transferred asset. That the put or the call or the forward repurchase agreement is settled net in cash does not automatically mean that the entity has transferred control (see paragraphs AG29 and (g), (h) and (i) above).

(l) Removal of accounts provision. A removal of accounts provision is an unconditional repurchase (call) option that gives an entity the right to reclaim assets transferred subject to some restrictions. Provided that such an option results in the entity neither retaining nor transferring substantially all the risks and rewards of ownership, it precludes derecognition only to the extent of the amount subject to repurchase (assuming that the transferee cannot sell the assets). For example, if the carrying amount and proceeds from the transfer of loan assets are CU100,000 and any individual loan could be called back but the aggregate amount of loans that could be repurchased could not exceed CU10,000, CU90,000 of the loans would qualify for derecognition.

(m) Clean-up calls. An entity, which may be a transferor, that services transferred assets may hold a clean-up call to purchase remaining transferred assets when the amount of outstanding assets falls to a specified level at which the cost of servicing those assets becomes burdensome in relation to the benefits of servicing. Provided that such a clean-up call results in the entity neither retaining nor transferring substantially all the risks and rewards of ownership and the transferee cannot sell the assets, it precludes derecognition only to the extent of the amount of the assets that is subject to the call option.

(n) Subordinated retained interests and credit guarantees. An entity may provide the transferee with credit enhancement by subordinating some or all of its interest retained in the transferred asset. Alternatively, an entity may provide the transferee with credit enhancement in the form of a credit guarantee that could be unlimited or limited to a specified amount. If the entity retains substantially all the risks and rewards of ownership of the transferred asset, the asset continues to be recognized in its entirety. If the entity retains some, but not substantially all, of the risks and rewards of ownership and has retained control, derecognition is precluded to the extent of the amount of cash or other assets that the entity could be required to pay.

(o) Total return swaps. An entity may sell a financial asset to a transferee and enter into a total return swap with the transferee, whereby all of the interest payment cash flows from the underlying asset are remitted to the entity in exchange for a fixed payment or variable rate payment and any increases or declines in the fair value of the underlying asset are absorbed by the entity. In such a case, derecognition of all of the asset is prohibited.

(p) Interest rate swaps. An entity may transfer to a transferee a fixed rate financial asset and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate based on a notional amount that is equal to the principal amount of the transferred financial asset. The interest rate swap does not preclude derecognition of the transferred asset provided the payments on the swap are not conditional on payments being made on the transferred asset.

(q) Amortizing interest rate swaps. An entity may transfer to a transferee a fixed rate financial asset that is paid off over time, and enter into an amortizing interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate based on a notional amount. If the notional amount of the swap amortizes so that it equals the principal amount of the transferred financial asset outstanding at any point in time, the swap would generally result in the entity retaining substantial prepayment risk, in which case the entity either continues to recognize all of the transferred asset or

continues to recognize the transferred asset to the extent of its continuing involvement. Conversely, if the amortization of the notional amount of the swap is not linked to the principal amount outstanding of the transferred asset, such a swap would not result in the entity retaining prepayment risk on the asset. Hence, it would not preclude derecognition of the transferred asset provided the payments on the swap are not conditional on interest payments being made on the transferred asset and the swap does not result in the entity retaining any other significant risks and rewards of ownership on the transferred asset.

(r) Write-off. An entity has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof.

AG38. This paragraph illustrates the application of the continuing involvement approach when the entity's continuing involvement is in a part of a financial asset.

Assume an entity has a portfolio of prepayable loans whose coupon and effective interest rate is 10 percent and whose principal amount and amortized cost is CU10,000. It enters into a transaction in which, in return for a payment of CU9,115, the transferee obtains the right to CU9,000 of any collections of principal plus interest thereon at 9.5 percent. The entity retains rights to CU1,000 of any collections of principal plus interest thereon at 10 percent, plus the excess spread of 0.5 percent on the remaining CU9,000 of principal. Collections from prepayments are allocated between the entity and the transferee proportionately in the ratio of 1:9, but any defaults are deducted from the entity's interest of CU1,000 until that interest is exhausted. The fair value of the loans at the date of the transaction is CU10,100 and the estimated fair value of the excess spread of 0.5 percent is CU40.

The entity determines that it has transferred some significant risks and rewards of ownership (for example, significant prepayment risk) but has also retained some significant risks and rewards of ownership (because of its subordinated retained interest) and has retained control. It therefore applies the continuing involvement approach.

To apply this Standard, the entity analyzes the transaction as (a) a retention of a fully proportionate retained interest of CU1,000, plus (b) the subordination of that retained interest to provide credit enhancement to the transferee for credit losses.

The entity calculates that CU9,090 (90 percent × CU10,100) of the consideration received of CU9,115 represents the consideration for a fully proportionate 90 percent share. The remainder of the consideration received (CU25) represents consideration received for subordinating its retained interest to provide credit enhancement to the transferee for credit losses. In addition, the excess spread of 0.5 percent represents consideration received for the credit enhancement. Accordingly, the total consideration received for the credit enhancement is CU65 (CU25 + CU40).

The entity calculates the gain or loss on the sale of the 90 percent share of cash flows. Assuming that separate fair values of the 90 percent part transferred and the 10 percent part retained are not available at the date of the transfer, the entity allocates the carrying amount of the asset in accordance with paragraph 25 as follows:

	Fair value	*Percentage*	*Allocated carrying amount*
Portion transferred	9,090	90 percent	9,000
Portion retained	1,010	10 percent	1,000
Total	**10,100**		**10,000**

The entity computes its gain or loss on the sale of the 90 percent share of the cash flows by deducting the allocated carrying amount of the portion transferred from the consideration received, i.e., CU90 (CU9,090 – CU9,000). The carrying amount of the portion retained by the entity is CU1,000.

In addition, the entity recognizes the continuing involvement that results from the subordination of its retained interest for credit losses. Accordingly, it recognizes an asset of CU1,000 (the maximum amount of the cash flows it would not receive under the subordination), and an associated liability of CU1,065 (which is the maximum amount of the cash flows it would not receive under the subordination, i.e., CU1,000 plus the fair value of the subordination of CU65).

The entity uses all of the above information to account for the transaction as follows:

	Debit	*Credit*
Original asset	—	9,000
Asset recognized for subordination or the residual interest	1,000	—
Asset for the consideration received in the form of excess spread	40	—
Surplus or deficit (gain on transfer)	—	90
Liability	—	1,065
Cash received	9,115	—
Total	**10,155**	**10,155**

Immediately following the transaction, the carrying amount of the asset is CU2,040 comprising CU1,000, representing the allocated cost of the portion retained, and CU1,040, representing the entity's additional continuing involvement from the subordination of its retained interest for credit losses (which includes the excess spread of CU40).

In subsequent periods, the entity recognizes the consideration received for the credit enhancement (CU65) on a time proportion basis, accrues interest on the recognized asset using the effective interest method and recognizes any impairment losses on the recognized assets. As an example of the latter, assume that in the following year there is an impairment loss on the underlying loans of CU300. The entity reduces its recognized asset by CU600 (CU300 relating to its retained interest and CU300 relating to the additional continuing involvement that arises from the subordination of its retained interest for impairment losses), and reduces its recognized liability by CU300. The net result is a charge to surplus or deficit for impairment losses of CU300.

Derecognition of Financial Liabilities

AG39. A financial liability (or part of it) is extinguished when the debtor either:

(a) Discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or

(b) Is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition may still be met.)

AG40. If an issuer of a debt instrument repurchases that instrument, the debt is extinguished even if the issuer is a market maker in that instrument or intends to resell it in the near term.

AG41. Payment to a third party, including a trust (sometimes called 'in-substance defeasance'), does not, by itself, relieve the debtor of its primary obligation to the creditor, in the absence of legal release.

AG42. If a debtor pays a third party to assume an obligation and notifies its creditor that the third party has assumed its debt obligation, the debtor does not derecognize the debt obligation unless the condition in paragraph AG39(b) is met. If the debtor pays a third party to assume an obligation and obtains a legal release from its creditor, the debtor has extinguished the debt. However, if the debtor agrees to make payments on the debt to the third party or direct to its original creditor, the debtor recognizes a new debt obligation to the third party.

AG43. If a third party assumes an obligation of an entity, and the entity provides either no or only nominal consideration to that third party in return, an entity applies the derecognition requirements of this Standard as well as paragraphs AG155–AG158 of IPSAS 47.

AG44. Lenders will sometimes waive their right to collect debt owed by a public sector entity, for example, a national government may cancel a loan owed by a local government. This waiver of debt would constitute a legal release of the debt owing by the borrower to the lender. Where an entity's obligations have been waived as part of a non-exchange transaction it applies the derecognition requirements of this Standard as well as paragraphs AG155–AG158 of IPSAS 47.

AG45. Although legal release, whether judicially or by the creditor, results in derecognition of a liability, the entity may recognize a new liability if the derecognition criteria in paragraphs 12–34 are not met for the financial assets transferred. If those criteria are not met, the transferred assets are not derecognized, and the entity recognizes a new liability relating to the transferred assets.

AG46. For the purpose of paragraph 36, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. In determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

AG46A. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

AG47. In some cases, a creditor releases a debtor from its present obligation to make payments, but the debtor assumes a guarantee obligation to pay if the party assuming primary responsibility defaults. In these circumstances the debtor:

(a) Recognizes a new financial liability based on the fair value of its obligation for the guarantee; and

(b) Recognizes a gain or loss based on the difference between (i) any proceeds paid and (ii) the carrying amount of the original financial liability less the fair value of the new financial liability.

Classification

Classification of Financial Assets

The Entity's Management Model for Financial Assets

AG48. Paragraph 39(a) requires an entity to classify financial assets on the basis of the entity's management model for the financial assets, unless paragraph 44 applies. An entity assesses whether its financial assets meet the condition in paragraph 40(a) or the condition in paragraph 41(a) on the basis of the management model as determined by the entity's key management personnel (as defined in IPSAS 20, Related Party Disclosures).

AG49. An entity's management model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular objective. The entity's management model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. However, a single entity may have more than one management model for its financial instruments. Consequently, classification need not be determined at the reporting entity level. For example, an entity may hold a portfolio of investments that it manages in order to collect contractual cash flows and another portfolio of investments that it manages in order to trade to realize fair value changes. Similarly, in some circumstances, it may be appropriate to separate a portfolio of financial assets into sub-portfolios in order to reflect the level at which an entity manages those financial assets. For example, that may be the case if an entity originates or purchases a portfolio of mortgage loans and manages some of the loans with an objective of collecting contractual cash flows and manages the other loans with an objective of selling them.

AG50. An entity's management model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's management model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Consequently, this assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the management model for those assets if the entity reasonably expects that such a scenario will not occur. If cash flows are realized in a way that is different from the entity's expectations at the date that the entity assessed the management model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements (see IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors) nor does it change the classification of the remaining financial assets held in that management model (i.e., those assets that the entity recognized in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the management model assessment. However, when an entity assesses the management model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realized in the past, along with all other relevant information.

AG51. An entity's management model for financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the entity undertakes to achieve the objective of the management model. An entity will need to use judgment when it assesses its management model for financial assets and that assessment is not determined by a single factor or activity. Instead, the entity must consider all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

(a) How the performance of the management model and the financial assets held within that management model are evaluated and reported to the entity's key management personnel;

(b) The risks that affect the performance of the management model (and the financial assets held within that management model) and, in particular, the way in which those risks are managed; and

(c) How management is compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

A Management Model Whose Objective is to Hold Assets in Order to Collect Contractual Cash Flows

AG52. Financial assets that are held within a management model whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. That is, the entity manages the assets held within the portfolio to collect those particular

contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets). In determining whether cash flows are going to be realized by collecting the financial assets' contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However sales in themselves do not determine the management model and therefore cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence related to how the entity's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realized. An entity must consider information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions.

AG53. Although the objective of an entity's management model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's management model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

AG54. The management model may be to hold assets to collect contractual cash flows even if the entity sells financial assets when there is an increase in the assets' credit risk. To determine whether there has been an increase in the assets' credit risk, the entity considers reasonable and supportable information, including forward looking information. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a management model whose objective is to hold financial assets to collect contractual cash flows because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimizing potential credit losses due to credit deterioration are integral to such a management model. Selling a financial asset because it no longer meets the credit criteria specified in the entity's documented investment policy is an example of a sale that has occurred due to an increase in credit risk. However, in the absence of such a policy, the entity may demonstrate in other ways that the sale occurred due to an increase in credit risk.

AG55. Sales that occur for other reasons, such as sales made to manage credit concentration risk (without an increase in the assets' credit risk), may also be consistent with a management model whose objective is to hold financial assets in order to collect contractual cash flows. In particular, such sales may be consistent with a management model whose objective is to hold financial assets in order to collect contractual cash flows if those sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). If more than an infrequent number of such sales are made out of a portfolio and those sales are more than insignificant in value (either individually or in aggregate), the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. Whether a third party imposes the requirement to sell the financial assets, or that activity is at the entity's discretion, is not relevant to this assessment. An increase in the frequency or value of sales in a particular period is not necessarily inconsistent with an objective to hold financial assets in order to collect contractual cash flows, if an entity can explain the reasons for those sales and demonstrate why those sales do not reflect a change in the entity's management model. In addition, sales may be consistent with the objective of holding financial assets in order to collect contractual cash flows if the sales are made close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

AG56. The following are examples of when the objective of an entity's management model may be to hold financial assets to collect the contractual cash flows. This list of examples is not exhaustive. Furthermore, the examples are not intended to discuss all factors that may be relevant to the assessment of the entity's management model nor specify the relative importance of the factors.

Example	Analysis
Example 1 An entity holds investments to collect their contractual cash flows. The funding needs of the entity are predictable and the maturity of its financial assets is matched to the entity's estimated funding needs. The entity performs credit risk management activities with the objective of minimizing credit losses. In the past, sales have typically occurred when the financial assets' credit risk has increased such that the assets no longer meet the credit criteria specified in the entity's documented investment policy. In addition, infrequent sales have occurred as a result of unanticipated funding needs. Reports to key management personnel focus on the credit quality of the financial assets and the contractual return. The entity also monitors fair values of the financial assets, among other information.	Although the entity considers, among other information, the financial assets' fair values from a liquidity perspective (i.e., the cash amount that would be realized if the entity needs to sell assets), the entity's objective is to hold the financial assets in order to collect the contractual cash flows. Sales would not contradict that objective if they were in response to an increase in the assets' credit risk, for example if the assets no longer meet the credit criteria specified in the entity's documented investment policy. Infrequent sales resulting from unanticipated funding needs (e.g., in a stress case scenario) also would not contradict that objective, even if such sales are significant in value.
Example 2 An entity's management model is to purchase portfolios of financial assets, such as loans. Those portfolios may or may not include financial assets that are credit-impaired. If payment on the loans is not made on a timely basis, the entity attempts to realize the contractual cash flows through various means—for example, by contacting the debtor by mail, telephone or other methods. The entity's objective is to collect the contractual cash flows and the entity does not manage any of the loans in this portfolio with an objective of realizing cash flows by selling them. In some cases, the entity enters into interest rate swaps to change the interest rate on particular financial assets in a portfolio from a floating interest rate to a fixed interest rate.	The objective of the entity's management model is to hold the financial assets in order to collect the contractual cash flows. The same analysis would apply even if the entity does not expect to receive all of the contractual cash flows (e.g., some of the financial assets are credit-impaired at initial recognition). Moreover, the fact that the entity enters into derivatives to modify the cash flows of the portfolio does not in itself change the entity's management model.
Example 3 An entity has a management model with the objective of originating student loans and subsequently selling those loans to a securitization vehicle. The securitization vehicle issues instruments to investors. The originating entity controls the securitization vehicle and thus consolidates it. The securitization vehicle collects the contractual cash flows from the loans and passes them on to its investors.	The consolidated economic entity originated the loans with the objective of holding them to collect the contractual cash flows. However, the originating entity has an objective of realizing cash flows on the loan portfolio by selling the loans to the securitization vehicle, so for the purposes of its separate financial statements it would not be considered to be managing this portfolio in order to collect the contractual cash flows.

Example	Analysis
It is assumed for the purposes of this example that the loans continue to be recognized in the consolidated statement of financial position because they are not derecognized by the securitization vehicle.	
Example 4 A local government entity that issues bonds holds financial assets to meet redemption needs in a 'stress case' scenario (e.g., a run on the government's issued securities). The entity does not anticipate selling these assets except in such scenarios. The entity monitors the credit quality of the financial assets and its objective in managing the financial assets is to collect the contractual cash flows. The entity evaluates the performance of the assets on the basis of interest revenue earned and credit losses realized. However, the entity also monitors the fair value of the financial assets from a liquidity perspective to ensure that the cash amount that would be realized if the entity needed to sell the assets in a stress case scenario would be sufficient to meet the entity's liquidity needs. Periodically, the entity makes sales that are insignificant in value to demonstrate liquidity.	The objective of the entity's management model is to hold the financial assets to collect contractual cash flows. The analysis would not change even if during a previous stress case scenario the entity had sales that were significant in value in order to meet its redemption needs. Similarly, recurring sales activity that is insignificant in value is not inconsistent with holding financial assets to collect contractual cash flows. In contrast, if an entity holds financial assets to meet its everyday redemption needs and meeting that objective involves frequent sales that are significant in value, the objective of the entity's management model is not to hold the financial assets to collect contractual cash flows. Similarly, if the entity is required by law or regulation to routinely sell financial assets to demonstrate that the assets are liquid, and the value of the assets sold is significant, the entity's management model is not to hold financial assets to collect contractual cash flows. Whether a third party imposes the requirement to sell the financial assets, or that activity is at the entity's discretion, is not relevant to the analysis.

A Management Model Whose Objective is Achieved by Both Collecting Contractual Cash Flows and Selling Financial Assets

AG57. An entity may hold financial assets in a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of management model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the management model. There are various objectives that may be consistent with this type of management model. For example, the objective of the management model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, the entity will both collect contractual cash flows and sell financial assets.

AG58. Compared to a management model whose objective is to hold financial assets to collect contractual cash flows, this management model will typically involve greater frequency and value of sales. This is because

selling financial assets is integral to achieving the management model's objective instead of being only incidental to it. However, there is no threshold for the frequency or value of sales that must occur in this management model because both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

AG59. The following are examples of when the objective of the entity's management model may be achieved by both collecting contractual cash flows and selling financial assets. This list of examples is not exhaustive. Furthermore, the examples are not intended to describe all the factors that may be relevant to the assessment of the entity's management model nor specify the relative importance of the factors.

Example	Analysis
Example 5 An entity anticipates capital expenditure in a few years. The entity invests its excess cash in short and long-term financial assets so that it can fund the expenditure when the need arises. Many of the financial assets have contractual lives that exceed the entity's anticipated investment period. The entity will hold financial assets to collect the contractual cash flows and, when an opportunity arises, it will sell financial assets to re-invest the cash in financial assets with a higher return. The managers responsible for the portfolio are remunerated based on the overall return generated by the portfolio.	The objective of the management model is achieved by both collecting contractual cash flows and selling financial assets. The entity will make decisions on an ongoing basis about whether collecting contractual cash flows or selling financial assets will maximize the return on the portfolio until the need arises for the invested cash. In contrast, consider an entity that anticipates a cash outflow in five years to fund capital expenditure and invests excess cash in short-term financial assets. When the investments mature, the entity reinvests the cash in new short-term financial assets. The entity maintains this strategy until the funds are needed, at which time the entity uses the proceeds from the maturing financial assets to fund the capital expenditure. Only sales that are insignificant in value occur before maturity (unless there is an increase in credit risk). The objective of this contrasting management model is to hold financial assets to collect contractual cash flows.
Example 6 An entity holds financial assets to meet its everyday liquidity needs. The entity seeks to minimize the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. As a result, the entity holds financial assets to collect contractual cash flows and sells financial assets to reinvest in higher yielding financial assets or to better match the duration of its liabilities. In the past, this strategy has resulted in frequent sales activity and such sales have been significant in value. This activity is expected to continue in the future.	The objective of the management model is to maximize the return on the portfolio to meet everyday liquidity needs and the entity achieves that objective by both collecting contractual cash flows and selling financial assets. In other words, both collecting contractual cash flows and selling financial assets are integral to achieving the management model's objective.
Example 7 A social security fund holds financial assets in order to fund social security liabilities. The fund uses the proceeds from the contractual cash flows on the financial assets to settle social security liabilities as they come due. To ensure that the contractual cash flows from the financial assets are sufficient to settle those liabilities, the fund undertakes significant buying and selling activity on a regular basis to rebalance its portfolio of assets and to meet cash flow needs as they arise.	The objective of the management model is to fund the social security liabilities. To achieve this objective, the entity collects contractual cash flows as they come due and sells financial assets to maintain the desired profile of the asset portfolio. Thus both collecting contractual cash flows and selling financial assets are integral to achieving the management model's objective.

Other Management Models

AG60. Financial assets are measured at fair value through surplus or deficit if they are not held within a management model whose objective is to hold assets to collect contractual cash flows or within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets (but see also paragraph 106). One management model that results in measurement at fair value through surplus or deficit is one in which an entity manages the financial assets with the objective of realizing cash flows through the sale of the assets. The entity makes decisions based on the assets' fair values and manages the assets to realize those fair values. In this case, the entity's objective will typically result in active buying and selling. Even though the entity will collect contractual cash flows while it holds the financial assets, the objective of such a management model is not achieved by both collecting contractual cash flows and selling financial assets. This is because the collection of contractual cash flows is not integral to achieving the management model's objective; instead, it is incidental to it.

AG61. A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis (as described in paragraph 46(b)) is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The entity is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. In addition, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets. For such portfolios, the collection of contractual cash flows is only incidental to achieving the management model's objective. Consequently, such portfolios of financial assets must be measured at fair value through surplus or deficit.

Contractual Cash Flows that are Solely Payments of Principal and Interest on the Principal Amount Outstanding

AG62. Paragraph 39(b) requires an entity to classify a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a management model whose objective is to hold assets to collect contractual cash flows or within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets, unless paragraph 44 applies. To do so, the condition in paragraphs 40(b) and 41(b) requires an entity to determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

AG63. Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs AG67–AG71) and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. In extreme economic circumstances, interest can be negative if, for example, the holder of a financial asset either explicitly or implicitly pays for the deposit of its money for a particular period of time (and that fee exceeds the consideration that the holder receives for the time value of money, credit risk and other basic lending risks and costs). However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices, commodity prices, a specific profitability or income threshold being reached by the borrower or lender, or the achievement (or otherwise) of specific financial or other ratios, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

AG64. In accordance with paragraph 42(a), principal is the fair value of the financial asset at initial recognition. However that principal amount may change over the life of the financial asset (for example, if there are repayments of principal).

AG65. An entity shall assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

AG66. Leverage is a contractual cash flow characteristic of some financial assets. Leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. Stand-alone option, forward and swap contracts are examples of financial assets that include such leverage. Thus, such contracts do not meet the condition in paragraphs 40(b) and 41(b) and cannot be subsequently measured at amortized cost or fair value through net assets/equity.

Consideration for the Time Value of Money

AG67. Time value of money is the element of interest that provides consideration for only the passage of time. That is, the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgment and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

AG68. However, in some cases, the time value of money element may be modified (i.e., imperfect). That would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate) or if a financial asset's interest rate is periodically reset to an average of particular short and long-term interest rates. In such cases, an entity must assess the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. In some circumstances, the entity may be able to make that determination by performing a qualitative assessment of the time value of money element whereas, in other circumstances, it may be necessary to perform a quantitative assessment.

AG69. When assessing a modified time value of money element, the objective is to determine how different the contractual (undiscounted) cash flows could be from the (undiscounted) cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). For example, if the financial asset under assessment contains a variable interest rate that is reset every month to a one-year interest rate, the entity would compare that financial asset to a financial instrument with identical contractual terms and the identical credit risk except the variable interest rate is reset monthly to a one-month interest rate. If the modified time value of money element could result in contractual (undiscounted) cash flows that are significantly different from the (undiscounted) benchmark cash flows, the financial asset does not meet the condition in paragraphs 40(b) and 41(b). To make this determination, the entity must consider the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument. The reason for the interest rate being set in this way is not relevant to the analysis. If it is clear, with little or no analysis, whether the contractual (undiscounted) cash flows on the financial asset under the assessment could (or could not) be significantly different from the (undiscounted) benchmark cash flows, an entity need not perform a detailed assessment.

AG70. When assessing a modified time value of money element, an entity must consider factors that could affect future contractual cash flows. For example, if an entity is assessing a bond with a five-year term and the variable interest rate is reset every six months to a five-year rate, the entity cannot conclude that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding simply because the interest rate curve at the time of the assessment is such that the difference between a five-year interest rate and a six-month interest rate is not significant. Instead, the entity must also consider whether the relationship between the five-year interest rate and the six-month interest rate could change over the life of the instrument such that the contractual (undiscounted) cash flows over the life of the instrument could be significantly different from the (undiscounted) benchmark cash flows. However, an entity must consider only reasonably possible scenarios instead of every possible scenario. If an entity concludes that

the contractual (undiscounted) cash flows could be significantly different from the (undiscounted) benchmark cash flows, the financial asset does not meet the condition in paragraphs 40(b) and 41(b) and therefore cannot be measured at amortized cost or fair value through net assets/equity.

AG71. In some jurisdictions, the government or a regulatory authority sets interest rates. For example, such government regulation of interest rates may be part of a broad macroeconomic policy or it may be introduced to encourage entities to invest in a particular sector of the economy. In some of these cases, the objective of the time value of money element is not to provide consideration for only the passage of time. However, despite paragraphs AG67–AG70, a regulated interest rate shall be considered a proxy for the time value of money element for the purpose of applying the condition in paragraphs 40(b) and 41(b) if that regulated interest rate provides consideration that is broadly consistent with the passage of time and does not provide exposure to risks or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement.

Contractual Terms that Change the Timing or Amount of Contractual Cash Flows

AG72. If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows. The entity may also need to assess the nature of any contingent event (i.e., the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount outstanding because of the relationship between missed payments and an increase in credit risk. (See also paragraph AG80.)

AG73. The following are examples of contractual terms that result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding:

(a) A variable interest rate that consists of consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time (the consideration for credit risk may be determined at initial recognition only, and so may be fixed) and other basic lending risks and costs, as well as a profit margin;

(b) A contractual term that permits the issuer (i.e., the debtor) to prepay a debt instrument or permits the holder (i.e., the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for the early termination of the contract; and

(c) A contractual term that permits the issuer or the holder to extend the contractual term of a debt instrument (i.e., an extension option) and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding, which may include reasonable compensation for the extension of the contract.

AG74. Despite paragraph AG72, a financial asset that would otherwise meet the condition in paragraphs 40(b) and 41(b) but does not do so only as a result of a contractual term that permits (or requires) the issuer to prepay a debt instrument or permits (or requires) the holder to put a debt instrument back to the issuer before maturity

is eligible to be measured at amortized cost or fair value through net assets/equity (subject to meeting the condition in paragraph 40(a) or the condition in paragraph 41(a)) if:

(a) The entity acquires or originates the financial asset at a premium or discount to the contractual par amount;

(b) The prepayment amount substantially represents the contractual par amount and accrued (but unpaid) contractual interest, which may include reasonable compensation for the early termination of the contract; and

(c) When the entity initially recognizes the financial asset, the fair value of the prepayment feature is insignificant.

AG74A. For the purpose of applying paragraphs AG73(b) and AG74(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination. For example, a party may pay or receive reasonable compensation when it chooses to terminate the contract early (or otherwise causes the early termination to occur).

AG75. The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	**Analysis**
Instrument A Instrument A is a bond with a stated maturity date. Payments of principal and interest on the principal amount outstanding are linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged and the principal is protected.	The contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects 'real' interest. Thus, the interest amounts are consideration for the time value of money on the principal amount outstanding. However, if the interest payments were indexed to another variable such as the debtor's performance (e.g., the debtor's surplus or deficit) or an equity index, the contractual cash flows are not payments of principal and interest on the principal amount outstanding (unless the indexing to the debtor's performance results in an adjustment that only compensates the holder for changes in the credit risk of the instrument, such that contractual cash flows are solely payments of principal and interest). That is because the contractual cash flows reflect a return that is inconsistent with a basic lending arrangement (see paragraph AG63).
Instrument B Instrument B is a variable interest rate instrument with a stated maturity date that permits the borrower to choose the market interest rate on an ongoing basis. For example, at each interest rate reset date, the borrower can choose to pay the three-month interbank offered rate	The contractual cash flows are solely payments of principal and interest on the principal amount outstanding as long as the interest paid over the life of the instrument reflects consideration for the time value of money, for the credit risk associated with the instrument and for other basic lending risks and costs, as well as a profit margin (see paragraph AG63). The fact that the interbank offered

Instrument	Analysis
for a three-month term or one-month interbank offered rate for a one-month term.	rate interest rate is reset during the life of the instrument does not in itself disqualify the instrument. However, if the borrower is able to choose to pay a one-month interest rate that is reset every three months, the interest rate is reset with a frequency that does not match the tenor of the interest rate. Consequently, the time value of money element is modified. Similarly, if an instrument has a contractual interest rate that is based on a term that can exceed the instrument's remaining life (for example, if an instrument with a five-year maturity pays a variable rate that is reset periodically but always reflects a five-year maturity), the time value of money element is modified. That is because the interest payable in each period is disconnected from the interest period. In such cases, the entity must qualitatively or quantitatively assess the contractual cash flows against those on an instrument that is identical in all respects except the tenor of the interest rate matches the interest period to determine if the cash flows are solely payments of principal and interest on the principal amount outstanding. (But see paragraph AG71 for guidance on regulated interest rates.) For example, in assessing a bond with a five-year term that pays a variable rate that is reset every six months but always reflects a five-year maturity, an entity considers the contractual cash flows on an instrument that resets every six months to a six-month interest rate but is otherwise identical. The same analysis would apply if the borrower is able to choose between the lender's various published interest rates (e.g., the borrower can choose between the lender's published one-month variable interest rate and the lender's published three-month variable interest rate).
Instrument C Instrument C is a bond with a stated maturity date and pays a variable market interest rate. That variable interest rate is capped.	The contractual cash flows of both: (a) an instrument that has a fixed interest rate and (b) an instrument that has a variable interest rate are payments of principal and interest on the principal amount outstanding as long as the interest reflects consideration for the time value of money, for the credit risk associated with the instrument during the term of the

Instrument	Analysis
	instrument and for other basic lending risks and costs, as well as a profit margin. (See paragraph AG63) Consequently, an instrument that is a combination of (a) and (b) (e.g., a bond with an interest rate cap) can have cash flows that are solely payments of principal and interest on the principal amount outstanding. Such a contractual term may reduce cash flow variability by setting a limit on a variable interest rate (e.g., an interest rate cap or floor) or increase the cash flow variability because a fixed rate becomes variable.
Instrument D Instrument D is a full recourse loan and is secured by collateral.	The fact that a full recourse loan is collateralized does not in itself affect the analysis of whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.
Instrument E Instrument E is issued by a regulated bank and has a stated maturity date. The instrument pays a fixed interest rate and all contractual cash flows are non-discretionary.	The holder would analyze the contractual terms of the financial instrument to determine whether they give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and thus are consistent with a basic lending arrangement. That analysis would not consider the payments that arise only as a result of the national resolving authority's power to impose losses on the holders of Instrument E. That is because that power, and the resulting payments, are not contractual terms of the financial instrument.
However, the issuer is subject to legislation that permits or requires a national resolving authority to impose losses on holders of particular instruments, including Instrument E, in particular circumstances. For example, the national resolving authority has the power to write down the par amount of Instrument E or to convert it into a fixed number of the issuer's ordinary shares if the national resolving authority determines that the issuer is having severe financial difficulties, needs additional regulatory capital or is 'failing'.	In contrast, the contractual cash flows would not be solely payments of principal and interest on the principal amount outstanding if the contractual terms of the financial instrument permit or require the issuer or another entity to impose losses on the holder (e.g., by writing down the par amount or by converting the instrument into a fixed number of the issuer's ordinary shares) as long as those contractual terms are genuine, even if the probability is remote that such a loss will be imposed.

AG76. The following examples illustrate contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
Instrument F Instrument F is a bond that is convertible into a fixed number of equity instruments of the issuer.	The holder would analyze the convertible bond in its entirety. The contractual cash flows are not payments of principal and interest on the principal amount outstanding because

Instrument	Analysis
	they reflect a return that is inconsistent with a basic lending arrangement (see paragraph AG63); i.e., the return is linked to the value of the equity of the issuer.
Instrument G Instrument G is a loan that pays an inverse floating interest rate (i.e., the interest rate has an inverse relationship to market interest rates).	The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. The interest amounts are not consideration for the time value of money on the principal amount outstanding.
Instrument H Instrument H is a perpetual instrument but the issuer may call the instrument at any point and pay the holder the par amount plus accrued interest due. Instrument H pays a market interest rate but payment of interest cannot be made unless the issuer is able to remain solvent immediately afterwards. Deferred interest does not accrue additional interest.	The contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the issuer may be required to defer interest payments and additional interest does not accrue on those deferred interest amounts. As a result, interest amounts are not consideration for the time value of money on the principal amount outstanding. If interest accrued on the deferred amounts, the contractual cash flows could be payments of principal and interest on the principal amount outstanding. The fact that Instrument H is perpetual does not in itself mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding. In effect, a perpetual instrument has continuous (multiple) extension options. Such options may result in contractual cash flows that are payments of principal and interest on the principal amount outstanding if interest payments are mandatory and must be paid in perpetuity. Also, the fact that Instrument H is callable does not mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding unless it is callable at an amount that does not substantially reflect payment of outstanding principal and interest on that principal amount outstanding. Even if the callable amount includes an amount that reasonably compensates the holder for the early termination of the instrument, the contractual cash flows could be payments of principal and interest on the principal amount outstanding. (See also paragraph AG74.)

AG77. In some cases a financial asset may have contractual cash flows that are described as principal and interest but those cash flows do not represent the payment of principal and interest on the principal amount outstanding as described in paragraphs 40(b), 41(b) and 42 of this Standard.

AG78. This may be the case if the financial asset represents an investment in particular assets or cash flows and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. For example, if the contractual terms stipulate that the financial asset's cash flows increase as more automobiles use a particular toll road, those contractual cash flows are inconsistent with a basic lending arrangement. As a result, the instrument would not satisfy the condition in paragraphs 40(b) and 41(b). This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (for example, a 'non-recourse' financial asset).

AG79. However, the fact that a financial asset is non-recourse does not in itself necessarily preclude the financial asset from meeting the condition in paragraphs 40(b) and 41(b). In such situations, the creditor is required to assess ('look through to') the particular underlying assets or cash flows to determine whether the contractual cash flows of the financial asset being classified are payments of principal and interest on the principal amount outstanding. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraphs 40(b) and 41(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.

AG80. A contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset. To make this determination, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument. In addition, if a contractual cash flow characteristic could have an effect on the contractual cash flows that is more than de minimis (either in a single reporting period or cumulatively) but that cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

AG81. In almost every lending transaction the creditor's instrument is ranked relative to the instruments of the debtor's other creditors. An instrument that is subordinated to other instruments may have contractual cash flows that are payments of principal and interest on the principal amount outstanding if the debtor's non-payment is a breach of contract and the holder has a contractual right to unpaid amounts of principal and interest on the principal amount outstanding even in the event of the debtor's bankruptcy. For example, a trade receivable that ranks its creditor as a general creditor would qualify as having payments of principal and interest on the principal amount outstanding. This is the case even if the debtor issued loans that are collateralized, which in the event of bankruptcy would give that loan holder priority over the claims of the general creditor in respect of the collateral but does not affect the contractual right of the general creditor to unpaid principal and other amounts due.

Contractually Linked Instruments

AG82. In some types of transactions, an issuer may prioritize payments to the holders of financial assets using multiple contractually linked instruments that create concentrations of credit risk (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer are allocated to the tranche. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches.

AG83. In such transactions, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:

(a) The contractual terms of the tranche being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are solely payments of principal

and interest on the principal amount outstanding (e.g., the interest rate on the tranche is not linked to a commodity index);

(b) The underlying pool of financial instruments has the cash flow characteristics set out in paragraphs AG85 and AG86; and

(c) The exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, the credit rating of the tranche being assessed for classification is equal to or higher than the credit rating that would apply to a single tranche that funded the underlying pool of financial instruments).

AG84. An entity must look through until it can identify the underlying pool of instruments that are creating (instead of passing through) the cash flows. This is the underlying pool of financial instruments.

AG85. The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

AG86. The underlying pool of instruments may also include instruments that:

(a) Reduce the cash flow variability of the instruments in paragraph AG85 and, when combined with the instruments in paragraph AG85, result in cash flows that are solely payments of principal and interest on the principal amount outstanding (e.g., an interest rate cap or floor or a contract that reduces the credit risk on some or all of the instruments in paragraph AG85); or

(b) Align the cash flows of the tranches with the cash flows of the pool of underlying instruments in paragraph AG85 to address differences in and only in:

(i) Whether the interest rate is fixed or floating;

(ii) The currency in which the cash flows are denominated, including inflation in that currency; or

(iii) The timing of the cash flows.

AG87. If any instrument in the pool does not meet the conditions in either paragraph AG85 or paragraph AG86, the condition in paragraph AG83(b) is not met. In performing this assessment, a detailed instrument-by-instrument analysis of the pool may not be necessary. However, an entity must use judgment and perform sufficient analysis to determine whether the instruments in the pool meet the conditions in paragraphs AG85–AG86. (See also paragraph AG80 for guidance on contractual cash flow characteristics that have only a de minimis effect.)

AG88. If the holder cannot assess the conditions in paragraph AG83 at initial recognition, the tranche must be measured at fair value through surplus or deficit. If the underlying pool of instruments can change after initial recognition in such a way that the pool may not meet the conditions in paragraphs AG85–AG86, the tranche does not meet the conditions in paragraph AG83 and must be measured at fair value through surplus or deficit. However, if the underlying pool includes instruments that are collateralized by assets that do not meet the conditions in paragraphs AG85–AG86, the ability to take possession of such assets shall be disregarded for the purposes of applying this paragraph unless the entity acquired the tranche with the management model of controlling the collateral.

Option to Designate a Financial Asset or Financial Liability as at Fair Value through Surplus or Deficit

AG89. Subject to the conditions in paragraphs 44 and 46, this Standard allows an entity to designate a financial asset, a financial liability, or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through surplus or deficit provided that doing so results in more relevant information.

AG90. The decision of an entity to designate a financial asset or financial liability as at fair value through surplus or deficit is similar to an accounting policy choice (although, unlike an accounting policy choice, it is not required to be applied consistently to all similar transactions). When an entity has such a choice, paragraph 12 of IPSAS 3 requires the chosen policy to result in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows. For example, in the case of designation of a financial liability as at fair value through surplus or deficit, paragraph 46 sets out the two circumstances when the requirement for more relevant information will be met. Accordingly, to choose such designation in accordance with paragraph 46, the entity needs to demonstrate that it falls within one (or both) of these two circumstances.

Designation Eliminates or Significantly Reduces an Accounting Mismatch

AG91. Measurement of a financial asset or financial liability and classification of recognized changes in its value are determined by the item's classification and whether the item is part of a designated hedging relationship. Those requirements can create a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') when, for example, in the absence of designation as at fair value through surplus or deficit, a financial asset would be classified as subsequently measured at fair value through surplus or deficit and a liability the entity considers related would be subsequently measured at amortized cost (with changes in fair value not recognized). In such circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were measured as at fair value through surplus or deficit.

AG92. The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through surplus or deficit only if it meets the principle in paragraph 44 or 46(a):

(a) An entity has liabilities under insurance contracts whose measurement incorporates current information and financial assets that it considers to be related and that would otherwise be measured at either fair value through net assets/equity or amortized cost.

(b) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, and that gives rise to opposite changes in fair value that tend to offset each other. However, only some of the instruments would be measured at fair value through surplus or deficit (for example, those that are derivatives, or are classified as held for trading). It may also be the case that the requirements for hedge accounting are not met because, for example, the requirements for hedge effectiveness in paragraph 129 are not met.

(c) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and none of the financial assets or financial liabilities qualifies for designation as a hedging instrument because they are not measured at fair value through surplus or deficit. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example, the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through surplus or deficit eliminates the inconsistency in the timing of the recognition of the gains and losses that would otherwise result from measuring them both at amortized cost and recognizing a gain or loss each time a bond is repurchased.

AG93. In cases such as those described in the preceding paragraph, to designate, at initial recognition, the financial assets and financial liabilities not otherwise so measured as at fair value through surplus or deficit may

eliminate or significantly reduce the measurement or recognition inconsistency and produce more relevant information. For practical purposes, the entity need not enter into all of the assets and liabilities giving rise to the measurement or recognition inconsistency at exactly the same time. A reasonable delay is permitted provided that each transaction is designated as at fair value through surplus or deficit at its initial recognition and, at that time, any remaining transactions are expected to occur.

AG94. It would not be acceptable to designate only some of the financial assets and financial liabilities giving rise to the inconsistency as at fair value through surplus or deficit if to do so would not eliminate or significantly reduce the inconsistency and would therefore not result in more relevant information. However, it would be acceptable to designate only some of a number of similar financial assets or similar financial liabilities if doing so achieves a significant reduction (and possibly a greater reduction than other allowable designations) in the inconsistency. For example, assume an entity has a number of similar financial liabilities that sum to CU100 and a number of similar financial assets that sum to CU50 but are measured on a different basis. The entity may significantly reduce the measurement inconsistency by designating at initial recognition all of the assets but only some of the liabilities (for example, individual liabilities with a combined total of CU45) as at fair value through surplus or deficit. However, because designation as at fair value through surplus or deficit can be applied only to the whole of a financial instrument, the entity in this example must designate one or more liabilities in their entirety. It could not designate either a component of a liability (e.g., changes in value attributable to only one risk, such as changes in a benchmark interest rate) or a proportion (i.e., percentage) of a liability.

A Group of Financial Liabilities or Financial Assets and Financial Liabilities is Managed and its Performance is Evaluated on a Fair Value Basis

AG95. An entity may manage and evaluate the performance of a group of financial liabilities or financial assets and financial liabilities in such a way that measuring that group at fair value through surplus or deficit results in more relevant information. The focus in this instance is on the way the entity manages and evaluates performance, instead of on the nature of its financial instruments.

AG96. For example, an entity may use this condition to designate financial liabilities as at fair value through surplus or deficit if it meets the principle in paragraph 46(b) and the entity has financial assets and financial liabilities that share one or more risks and those risks are managed and evaluated on a fair value basis in accordance with a documented policy of asset and liability management. An example could be an entity that has issued ‘structured products’ containing multiple embedded derivatives and manages the resulting risks on a fair value basis using a mix of derivative and non-derivative financial instruments.

AG97. As noted above, this condition relies on the way the entity manages and evaluates performance of the group of financial instruments under consideration. Accordingly, (subject to the requirement of designation at initial recognition) an entity that designates financial liabilities as at fair value through surplus or deficit on the basis of this condition shall so designate all eligible financial liabilities that are managed and evaluated together.

AG98. Documentation of the entity’s strategy need not be extensive but should be sufficient to demonstrate compliance with paragraph 46(b). Such documentation is not required for each individual item, but may be on a portfolio basis. For example, if the performance management system for a department—as approved by the entity’s key management personnel—clearly demonstrates that its performance is evaluated on this basis, no further documentation is required to demonstrate compliance with paragraph 46(b).

Embedded Derivatives

AG99. When an entity becomes a party to a hybrid contract with a host that is not an asset within the scope of this Standard, paragraph 49 requires the entity to identify any embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently at fair value through surplus or deficit.

AG100. If a host contract has no stated or predetermined maturity and represents a residual interest in the net assets of an entity, then its economic characteristics and risks are those of an equity instrument, and an embedded derivative would need to possess equity characteristics related to the same entity to be regarded as closely related. If the host contract is not an equity instrument and meets the definition of a financial instrument, then its economic characteristics and risks are those of a debt instrument.

AG101. An embedded non-option derivative (such as an embedded forward or swap) is separated from its host contract on the basis of its stated or implied substantive terms, so as to result in it having a fair value of zero at initial recognition. An embedded option-based derivative (such as an embedded put, call, cap, floor or swaption) is separated from its host contract on the basis of the stated terms of the option feature. The initial carrying amount of the host instrument is the residual amount after separating the embedded derivative.

AG102. Generally, multiple embedded derivatives in a single hybrid contract are treated as a single compound embedded derivative. However, embedded derivatives that are classified as equity (see IPSAS 28) are accounted for separately from those classified as assets or liabilities. In addition, if a hybrid contract has more than one embedded derivative and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other.

AG103. The economic characteristics and risks of an embedded derivative are not closely related to the host contract (paragraph 49(a)) in the following examples. In these examples, assuming the conditions in paragraph 49(b) and 49(c) are met, an entity accounts for the embedded derivative separately from the host contract.

(a) A put option embedded in an instrument that enables the holder to require the issuer to reacquire the instrument for an amount of cash or other assets that varies on the basis of the change in an equity or commodity price or index is not closely related to a host debt instrument.

(b) An option or automatic provision to extend the remaining term to maturity of a debt instrument is not closely related to the host debt instrument unless there is a concurrent adjustment to the approximate current market rate of interest at the time of the extension. If an entity issues a debt instrument and the holder of that debt instrument writes a call option on the debt instrument to a third party, the issuer regards the call option as extending the term to maturity of the debt instrument provided the issuer can be required to participate in or facilitate the remarketing of the debt instrument as a result of the call option being exercised.

(c) Equity-indexed interest or principal payments embedded in a host debt instrument or insurance contract—by which the amount of interest or principal is indexed to the value of equity instruments—are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.

(d) Commodity-indexed interest or principal payments embedded in a host debt instrument or insurance contract—by which the amount of interest or principal is indexed to the price of a commodity (such as gold)—are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.

(e) A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless:

(i) The option’s exercise price is approximately equal on each exercise date to the amortized cost of the host debt instrument or the carrying amount of the host insurance contract; or

(ii) The exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over

the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with IPSAS 28.

(f) Credit derivatives that are embedded in a host debt instrument and allow one party (the 'beneficiary') to transfer the credit risk of a particular reference asset, which it may not own, to another party (the 'guarantor') are not closely related to the host debt instrument. Such credit derivatives allow the guarantor to assume the credit risk associated with the reference asset without directly owning it.

AG104. An example of a hybrid contract is a financial instrument that gives the holder a right to put the financial instrument back to the issuer in exchange for an amount of cash or other financial assets that varies on the basis of the change in an equity or commodity index that may increase or decrease (a 'puttable instrument'). Unless the issuer on initial recognition designates the puttable instrument as a financial liability at fair value through surplus or deficit, it is required to separate an embedded derivative (i.e., the indexed principal payment) under paragraph 49 because the host contract is a debt instrument under paragraph AG100 and the indexed principal payment is not closely related to a host debt instrument under paragraph AG103(a). Because the principal payment can increase and decrease, the embedded derivative is a non-option derivative whose value is indexed to the underlying variable.

AG105. In the case of a puttable instrument that can be put back at any time for cash equal to a proportionate share of the net asset value of an entity (such as units of an open-ended mutual fund or some unit-linked investment products), the effect of separating an embedded derivative and accounting for each component is to measure the hybrid contract at the redemption amount that is payable at the end of the reporting period if the holder exercised its right to put the instrument back to the issuer.

AG106. The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host contract in the following examples. In these examples, an entity does not account for the embedded derivative separately from the host contract.

(a) An embedded derivative in which the underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract or insurance contract is closely related to the host contract unless the hybrid contract can be settled in such a way that the holder would not recover substantially all of its recognized investment or the embedded derivative could at least double the holder's initial rate of return on the host contract and could result in a rate of return that is at least twice what the market return would be for a contract with the same terms as the host contract.

(b) An embedded floor or cap on the interest rate on a debt contract or insurance contract is closely related to the host contract, provided the cap is at or above the market rate of interest and the floor is at or below the market rate of interest when the contract is issued, and the cap or floor is not leveraged in relation to the host contract. Similarly, provisions included in a contract to purchase or sell an asset (e.g., a commodity) that establish a cap and a floor on the price to be paid or received for the asset are closely related to the host contract if both the cap and floor were out of the money at inception and are not leveraged.

(c) An embedded foreign currency derivative that provides a stream of principal or interest payments that are denominated in a foreign currency and is embedded in a host debt instrument (for example, a dual currency bond) is closely related to the host debt instrument. Such a derivative is not separated from the host instrument because IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* requires foreign currency gains and losses on monetary items to be recognized in surplus or deficit.

(d) An embedded foreign currency derivative in a host contract that is an insurance contract or not a financial instrument (such as a contract for the purchase or sale of a non-financial item where the price is denominated in a foreign currency) is closely related to the host contract provided it is not leveraged, does not contain an option feature, and requires payments denominated in one of the following currencies:

(i) The functional currency of any substantial party to that contract;

(ii) The currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions); or

(iii) A currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place (e.g., a relatively stable and liquid currency that is commonly used in local business transactions or external trade).

(e) An embedded prepayment option in an interest-only or principal-only strip is closely related to the host contract provided the host contract (i) initially resulted from separating the right to receive contractual cash flows of a financial instrument that, in and of itself, did not contain an embedded derivative, and (ii) does not contain any terms not present in the original host debt contract.

(f) An embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is (i) an inflation-related index such as an index of lease payments to a consumer price index (provided that the lease is not leveraged and the index relates to inflation in the entity's own economic environment), (ii) variable lease payments based on related sales or (iii) variable lease payments based on variable interest rates.

(g) A unit-linking feature embedded in a host financial instrument or host insurance contract is closely related to the host instrument or host contract if the unit-denominated payments are measured at current unit values that reflect the fair values of the assets of the fund. A unit-linking feature is a contractual term that requires payments denominated in units of an internal or external investment fund.

(h) A derivative embedded in an insurance contract is closely related to the host insurance contract if the embedded derivative and host insurance contract are so interdependent that an entity cannot measure the embedded derivative separately (i.e., without considering the host contract).

Instruments Containing Embedded Derivatives

AG107. As noted in paragraph AG99, when an entity becomes a party to a hybrid contract with a host that is not an asset within the scope of this Standard and with one or more embedded derivatives, paragraph 49 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than measuring the entire instrument at fair value through surplus or deficit. For that reason this Standard permits the entire hybrid contract to be designated as at fair value through surplus or deficit.

AG108. Such designation may be used whether paragraph 49 requires the embedded derivatives to be separated from the host contract or prohibits such separation. However, paragraph 51 would not justify designating the hybrid contract as at fair value through surplus or deficit in the cases set out in paragraph 51(a) and 51(b) because doing so would not reduce complexity or increase reliability.

Reassessment of Embedded Derivatives

AG109. In accordance with paragraph 49, an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

AG110. Paragraph AG109 does not apply to embedded derivatives in contracts acquired in:

(a) A public sector combination;

(b) A combination of entities under common control; or

(c) The formation of a joint venture as defined in IPSAS 37, Joint Arrangements

or their possible reassessment at the date of acquisition.

Reclassification of Financial Assets

Reclassification of Financial Assets

AG111. Paragraph 54 requires an entity to reclassify financial assets if the entity changes its management model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. Accordingly, a change in an entity's management model will occur only when an entity either begins or ceases to perform an activity that is significant to its operations; for example, when the entity has acquired, disposed of or terminated a business line. Examples of a change in management model include the following:

(a) A government agency extends loans to small business owners and has a management model to sell the loan portfolios to private entities at a discount due to the long collection cycle of these loans. The entity enters into a long term contract with a third party collection service provider. The loan portfolios are no longer for sale, as they are held to collect the contractual cash flows with the aid of the collections service provider.

(b) A department of government decides to end its support for its national auto manufacturing industry by no longer providing favorable loans. That department no longer issues new loans and the department is actively marketing its loan portfolio for sale.

AG112. A change in the objective of the entity's management model must be effected before the reclassification date. For example, if a federal mortgage and housing corporation decides on February 15 to shut down its retail mortgage business and hence must reclassify all affected financial assets on April 1 (i.e., the first day of the entity's next reporting period), the entity must not accept new retail mortgage business or otherwise engage in activities consistent with its former management model after February 15.

AG113. The following are not changes in management model:

(a) A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions).

(b) The temporary disappearance of a particular market for financial assets.

(c) A transfer of financial assets between parts of the entity with different management models.

Measurement

Revenue Transactions

AG114. The initial recognition and measurement of assets and liabilities resulting from revenue transactions is dealt with in IPSAS 47. Assets resulting from revenue transactions can arise out of both contractual and non-contractual arrangements (see IPSAS 28 paragraphs AG20 and AG21). Where these assets arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are:

(a) Initially recognized in accordance with IPSAS 47;

(b) Initially measured:

(i) At the transaction consideration using the principles in IPSAS 47; and

(ii) Taking account of transaction costs that are directly attributable to the acquisition of the financial asset in accordance with paragraph 57 of this Standard, where the asset is subsequently measured other than at fair value through surplus or deficit.

Initial measurement

Initial Measurement of Financial Assets and Financial Liabilities (Paragraphs 57–59)

AG115. The fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also paragraph AG117 and IPSAS 46). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of revenue unless it qualifies for recognition as some other type of asset.

AG116. If an entity originates a loan that bears an off-market interest rate (e.g., 5 percent when the market rate for similar loans is 8 percent), and receives an upfront fee as compensation, the entity recognizes the loan at its fair value, i.e., net of the fee it receives.

AG117. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received, see also IPSAS 46). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 58, the entity shall account for that instrument at that date as follows:

(a) At the measurement required by paragraph 57 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a measurement technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) In all other cases, at the measurement required by paragraph 57, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The requirements of this paragraph do not apply to concessionary loans or equity instruments arising from non-exchange transactions as outlined in paragraphs AG118 to AG130.

Concessionary Loans

AG118. Concessionary loans are granted to or received by an entity at below market terms. Below market terms can result from interest and/or principal concessions. Examples of concessionary loans that commonly have below market terms include loans to developing countries, small farms, student loans granted to qualifying students for university or college education and housing loans granted to low income families. Entities may receive concessionary loans, for example, from development agencies and other government entities.

AG119. The granting or receiving of a concessionary loan is distinguished from the waiver of debt owing to or by an entity. This distinction is important because it affects whether the below market conditions are considered in the initial recognition or measurement of the loan rather than as part of the subsequent measurement or derecognition.

AG120. The intention of a concessionary loan at the outset is to provide or receive resources at below market terms. A waiver of debt results from loans initially granted or received at market related terms where the intention of either party to the loan has changed subsequent to its initial issue or receipt. For example, a government may lend money to a not-for-profit entity with the intention that the loan be repaid in full on market terms. However, the government may subsequently write-off part of the loan. This is not a concessionary loan as the intention of the loan at the outset was to provide credit to an entity at market related rates. An entity would treat the subsequent write-off of the loan as a waiver of debt and apply the derecognition requirements of IPSAS 41 (see paragraphs 12–34).

AG121. Concessionary loans also share many characteristics with originated credit-impaired loans. Whether a loan is classified as concessionary or originated credit-impaired determines whether the difference between the transaction price and the fair value of the loan is recognized as a concession or as a credit loss in the statement of financial performance.

AG122. Whether a loan is concessionary or originated credit-impaired depends on its substance. An intention to incorporate a non-exchange component into the transaction, such as a transfer of resources, indicates the loan is concessionary. The non-exchange component is incorporated into the transaction by granting the loan at below market terms. By contrast, originated credit-impaired loans are loans where one or more events, that have a detrimental impact on the estimated future cash flows of the financial asset, have occurred.

AG123. As concessionary loans are granted or received at below market terms, the transaction price on initial recognition of the loan may not be its fair value. At initial recognition, an entity therefore analyzes the substance of the loan granted or received into its component parts, and accounts for those components using the principles in paragraphs AG124 and AG126 below.

AG124. An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs AG152–AG153 of IPSAS 47. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in paragraphs AG144–AG155. Where an entity cannot determine fair value by reference to an active market, it uses a measurement technique. Fair value using a measurement technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan (see paragraph AG115).

AG125. Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as follows:

(a) Where the loan is received by an entity, the difference is accounted for in accordance with IPSAS 47.

(b) Where the loan is granted by an entity, the difference is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.

Illustrative Examples are provided in paragraphs IE296–IE299 of IPSAS 47 as well as paragraphs IE153–IE161 accompanying this Standard.

AG126. After evaluating the substance of the concessionary loan and measuring the loan component at fair value, an entity subsequently assesses the classification of concessionary loans in accordance with paragraphs 39–44 and measures concessionary loans in accordance with paragraphs 61–65.

AG127. In some circumstances a concessionary loan may be granted that is also originated credit-impaired. For example, a government may provide loans with concessionary terms on a recurring basis to a borrower that historically has not been able to repay in full. If the concessionary loan is credit-impaired, an entity measures the instrument at the fair value including the expected credit losses over the life of the instrument. An entity applies paragraph AG125(b) to account for the component parts and recognizes the credit losses and concessionary element in its entirety as a concession.

Equity Instruments Arising from Non-Exchange Transactions

AG128. In the public sector, equity investment can be used as a way for an entity to provide financing or subsidized funding to another public sector entity. In such a transaction, there is generally a lack of an active market for such investments (i.e., the equity instrument is unquoted), and there are no or minimal future cash flow expectations from the investment besides a potential redemption by the issuing entity. Cash is provided by the investing entity to the investee generally to further the investee's economic or social objectives. Examples of such investments could include membership shares in a development bank, or equity investment in another public sector entity that provides certain social programs or services (e.g., shelters, subsidized housing, small business assistance...etc.)

AG129. At initial recognition of such transactions, an entity shall analyze the substance of the arrangement and assess whether the intention at the outset is the provision or receipt of resources by way of a non-exchange transaction. To the extent that the transaction, or component of the transaction, is a non-exchange transaction, any assets or revenues arising from the transaction are accounted for in accordance with IPSAS 47. The entity providing the resources shall recognize the amount as an expense in surplus or deficit at initial recognition.

AG130. To the extent an equity instrument arises from the transaction, or component of the transaction, that is within the scope of this Standard, it is to be recognized initially at fair value in accordance with paragraph 57. The equity instrument is to be measured subsequently in accordance with paragraphs 61–63. If the instrument does not have an active market, the entity shall consider measurement techniques and inputs in paragraphs AG149–AG155 in determining its fair value.

Valuing Financial Guarantees Issued through a Non-Exchange Transaction

AG131. Only contractual financial guarantees (or guarantees that are in substance, contractual) are within the scope of this Standard (See paragraphs AG3 and AG4 of IPSAS 28). Non-contractual guarantees are not within the scope of this Standard as they do not meet the definition of a financial instrument. This Standard prescribes recognition and measurement requirements only for the issuer of financial guarantee contracts.

AG132. In paragraph 9, "financial guarantee contract" is defined as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument." Under the

requirements of this Standard, financial guarantee contracts, like other financial assets and financial liabilities, are required to be initially recognized at fair value. Paragraphs 66–68 of this Standard provide commentary and guidance on determining fair value and this is complemented by Application Guidance in paragraphs AG144–AG155. Subsequent measurement for financial guarantee contracts is at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized less, when appropriate, the cumulative amount of revenue recognized in accordance with IPSAS 47.

AG133. In the public sector, guarantees are frequently provided by way of non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity's economic and social objectives. Such purposes include supporting infrastructure projects, supporting corporate entities at times of economic distress, guaranteeing the bond issues of entities in other tiers of governments and the loans of employees to finance motor vehicles that are to be used for performance of their duties as employees. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration does represent a fair value, entities should recognize the financial guarantee at the amount of the consideration. Subsequent measurement should be at the higher of the amount of the loss allowance determined in accordance with paragraphs 73–93 and the amount initially recognized, less, when appropriate, the cumulative amount of revenue recognized in accordance with IPSAS 47. Where the entity concludes that the consideration is not a fair value, an entity determines the carrying value at initial recognition in the same way as if no consideration had been paid.

AG134. At initial recognition, where no fee is charged or where the consideration is not fair value, an entity firstly considers whether there are quoted prices available in an active market for financial guarantee contracts directly equivalent to that entered into. Evidence of an active market includes recent arm's length market transactions between knowledgeable willing parties, and reference to the current fair value of another financial guarantee contract that is substantially the same as that provided at nil or nominal consideration by the issuer. The fact that a financial guarantee contract has been entered into at no consideration by the debtor to the issuer is not, of itself, conclusive evidence of the absence of an active market. Guarantees may be available from commercial issuers, but a public sector entity may agree to enter into a financial guarantee contract for a number of non-commercial reasons. For example, if a debtor is unable to afford a commercial fee, and initiation of a project in fulfillment of one of the entity's social or policy objectives would be put at risk unless a financial guarantee contract is issued, it may approach a public sector entity or government to issue a financial guarantee contract.

AG135. Where there is no active market for a directly equivalent guarantee contract; the entity considers whether a measurement technique other than observation of an active market is available and provides a reliable measure of fair value. Such a measurement technique may rely on mathematical models which consider financial risk. For example, National Government W guarantees a bond issue of Municipality X. As Municipality X has a government guarantee backing its bond issue, its bonds have a lower coupon than if they were not secured by a government guarantee. This is because the guarantee lowers the risk profile of the bonds for investors. The guarantee fee could be determined by using the credit spread between what the coupon rate would have been had the issue not been backed by a government guarantee and the rate with the guarantee in place. Where a fair value is obtainable either by observation of an active market or through another measurement technique, the entity recognizes the financial guarantee at that fair value in the statement of financial position and recognizes an expense of an equivalent amount in the statement of financial performance. When using a measurement technique that is not based on observation of an active market an entity needs to satisfy itself that the output of any model is reliable and understandable.

AG136. If no reliable measure of fair value can be determined, either by direct observation of an active market or through another measurement technique, an entity is required to measure the financial guarantee contract at the amount of the loss allowance determined in accordance with paragraphs 73 to 93.

Subsequent Measurement

AG137. If a financial instrument that was previously recognized as a financial asset is measured at fair value through surplus or deficit and its fair value decreases below zero, it is a financial liability measured in accordance with paragraph 45. However, hybrid contracts with hosts that are assets within the scope of this Standard are always measured in accordance with paragraph 48.

AG138. The following example illustrates the accounting for transaction costs on the initial and subsequent measurement of a financial asset measured at fair value with changes through net assets/equity in accordance with either paragraph 106 or 41. An entity acquires a financial asset for CU100 plus a purchase commission of CU2. Initially, the entity recognizes the asset at CU102. The reporting period ends one day later, when the quoted market price of the asset is CU100. If the asset were sold, a commission of CU3 would be paid. On that date, the entity measures the asset at CU100 (without regard to the possible commission on sale) and recognizes a loss of CU2 in net assets/equity. If the financial asset is measured at fair value through net assets/equity in accordance with paragraph 41, the transaction costs are amortized to surplus or deficit using the effective interest method.

AG139. The subsequent measurement of a financial asset or financial liability and the subsequent recognition of gains and losses described in paragraph AG117 shall be consistent with the requirements of this Standard.

Investments in Equity Instruments and Contracts on those Investments

AG140. All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

AG141. Indicators that cost might not be representative of fair value include:

(a) A significant change in the performance of the investee compared with budgets, plans or milestones.

(b) Changes in expectation that the investee's technical product milestones will be achieved.

(c) A significant change in the market for the investee's equity or its products or potential products.

(d) A significant change in the global economy or the economic environment in which the investee operates.

(e) A significant change in the performance of comparable entities, or in the valuations implied by the overall market.

(f) Internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.

(g) Evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.

AG142. The list in paragraph AG141 is not exhaustive. An entity shall use all information about the performance and operations of the investee that becomes available after the date of initial recognition. To the extent that any such relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the entity must measure fair value.

AG143. Cost is never the best estimate of fair value for investments in quoted equity instruments (or contracts on quoted equity instruments).

Fair Value Measurement Considerations

Application to Liabilities and an Entity's Own Equity Instruments

General Principles

AG143A. A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g., equity interests issued as consideration in a public sector combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfill the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

AG143B. Even when there is no observable market to provide pricing information about the transfer of a liability or an entity's own equity instrument (e.g., because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (e.g., a government bond or a call option on an entity's shares).

AG143C. In all cases, an entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

Liabilities and Equity Instruments Held by Other Parties as Assets

AG143D. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

AG143E. In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

(a) Using the quoted price in an active market for the identical item held by another party as an asset, if that price is available.

(b) If that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.

(c) If the observable prices in (a) and (b) are not available, using another measurement technique, such as

(i) An *income approach* (e.g., a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs 45 and C35); and

(ii) A *market approach* (e.g., using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs 42, C31 and C32).

AG143F. An entity shall adjust the quoted price of a liability or an entity's own equity instrument held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

(a) The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (e.g., the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset; and

(b) The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

Liabilities and Equity Instruments not Held by Other Parties as Assets

AG143G. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a measurement technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

AG143H. For example, when applying a present value technique an entity might take into account either of the following:

(a) The future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs AG143X–AG143Z); or

(b) The amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (e.g., having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

Non-Performance Risk

AG143I. The fair value of a liability reflects the effect of *non-performance risk*. Non-performance risk includes, but may not be limited to, an entity's own credit risk (as defined in IFRS 7 *Financial Instruments: Disclosures*). Non-performance risk is assumed to be the same before and after the transfer of the liability.

AG143J. When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:

(a) Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability); and

(b) The terms of credit enhancements related to the liability, if any.

AG143K. The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (e.g., a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the

liability, the issuer would take into account its own credit standing and not that of the third-party guarantor when measuring the fair value of the liability.

Restriction Preventing the Transfer of a Liability or an Entity's Own Equity Instrument

AG143L. When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability or an entity's own equity instrument is either implicitly or explicitly included in the other inputs to the fair value measurement.

AG143M. For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

Financial Liability with a Demand Feature

AG143N. The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Application to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk

AG143O. An entity that holds a group of financial assets and financial liabilities is exposed to market risks (as defined in IFRS 7) and to the credit risk (as defined in IFRS 7) of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this IFRS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e., an asset) for a particular risk exposure or paid to transfer a net short position (i.e., a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

AG143P. An entity is permitted to use the exception in paragraph AG143O only if the entity does all the following:

(a) Manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;

(b) Provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in IPSAS 20, Related Party Disclosures; and

(c) Is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.

AG143Q. The exception in paragraph AG143O does not pertain to financial statement presentation. In some cases, the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if an IPSAS does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs AG143T–AG143W) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

AG143R. An entity shall make an accounting policy decision in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* to use the exception in paragraph AG143O. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs AG143T–AG143V) and credit adjustments (see paragraph AG143W), if applicable, consistently from period to period for a particular portfolio.

AG143S. The exception in paragraph AG143O applies only to financial assets, financial liabilities and other contracts within the scope of IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement*, if IPSAS 41 has not yet been adopted). The references to financial assets and financial liabilities in paragraphs AG143O–AG143R and AG143T–AG143W should be read as applying to all contracts within the scope of, and accounted for in accordance with, IPSAS 41 (or IPSAS 29, if IPSAS 41 has not yet been adopted), regardless of whether they meet the definitions of financial assets or financial liabilities in IPSAS 29, *Financial Instruments: Presentation*.

Exposure to Market Risks

AG143T. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs AG143AA and AG143BB).

AG143U. When using the exception in paragraph AG143O, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph AG143O, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.

AG143V. Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (i.e., years 2–5) on a gross basis.

Exposure to the Credit Risk of a Particular Counterparty

AG143W. When using the exception in paragraph AG143O to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (e.g., a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Applying Present Value Techniques to Liabilities and an Entity's Own Equity Instruments not Held by Other Parties as Assets (paragraphs AG143G and AG143H)

AG143X. When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (e.g., a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows

shall include market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for the following:

(a) Undertaking the activity (i.e., the value of fulfilling the obligation; e.g., by using resources that could be used for other activities); and

(b) Assuming the risk associated with the obligation (i.e., a risk premium that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph AG143Z).

AG143Y. For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases, the components of the return that market participants would require will be indistinguishable from one another (e.g., when using the price a third party contractor would charge on a fixed fee basis). In other cases, an entity needs to estimate those components separately (e.g., when using the price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

AG143Z. An entity can include a risk premium in the fair value measurement of a liability or an entity's own equity instrument that is not held by another party as an asset in one of the following ways:

(a) By adjusting the cash flows (i.e., as an increase in the amount of cash outflows); or

(b) By adjusting the rate used to discount the future cash flows to their present values (i.e., as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

Inputs to Measurement Techniques

AG143AA. If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (i.e., Level 1, 2 or 3; see paragraphs D59–D89 of IPSAS 46, *Measurement*). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.

AG143AB. IPSAS 46 does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

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Amortized Cost Measurement

Effective Interest Method

AG156. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognized in surplus or deficit. In those cases, the fees are recognized as revenue or expense when the instrument is initially recognized.

AG157. Fees that are an integral part of the effective interest rate of a financial instrument include:

(a) Origination fees received by the entity relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.

(b) Commitment fees received by the entity to originate a loan when the loan commitment is not measured in accordance with paragraph 45(a) and it is probable that the entity will enter into a specific lending arrangement. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the entity making the loan, the fee is recognized as revenue on expiry.

(c) Origination fees paid on issuing financial liabilities measured at amortized cost. These fees are an integral part of generating an involvement with a financial liability. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

AG158. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IPSAS 47 include:

(a) Fees charged for servicing a loan;

(b) Commitment fees to originate a loan when the loan commitment is not measured in accordance with paragraph 45(a) and it is unlikely that a specific lending arrangement will be entered into; and

(c) Loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

AG159. When applying the effective interest method, an entity generally amortizes any fees, points paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the financial instrument. In such a case, the appropriate amortization period is the period to the next such repricing date. For example, if a premium or discount on a floating-rate financial instrument reflects the interest that has accrued on that financial instrument since the interest was last paid, or changes in the market rates since the floating interest rate was

reset to the market rates, it will be amortized to the next date when the floating interest is reset to market rates. This is because the premium or discount relates to the period to the next interest reset date because, at that date, the variable to which the premium or discount relates (i.e., interest rates) is reset to the market rates. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the financial instrument, or other variables that are not reset to the market rates, it is amortized over the expected life of the financial instrument.

AG160. For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. If a floating-rate financial asset or a floating-rate financial liability is recognized initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability.

AG161. If an entity revises its estimates of payments or receipts (excluding modifications in accordance with paragraph 71 and changes in estimates of expected credit losses), it shall adjust the gross carrying amount of the financial asset or amortized cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or amortized cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with paragraph 139. The adjustment is recognized in surplus or deficit as revenue or expense.

AG162. In some cases a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is acquired at a deep discount. An entity is required to include the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired at initial recognition. However, this does not mean that a credit-adjusted effective interest rate should be applied solely because the financial asset has high credit risk at initial recognition.

Transaction Costs

AG163. Transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Write-off

AG164. Write-offs can relate to a financial asset in its entirety or to a portion of it. For example, an entity plans to enforce the collateral on a financial asset and expects to recover no more than 30 percent of the financial asset from the collateral. If the entity has no reasonable prospects of recovering any further cash flows from the financial asset, it should write off the remaining 70 percent of the financial asset.

Impairment

Collective and Individual Assessment Basis

AG165. In order to meet the objective of recognizing lifetime expected credit losses for significant increases in credit risk since initial recognition, it may be necessary to perform the assessment of significant increases in credit risk on a collective basis by considering information that is indicative of significant increases in credit risk on, for example, a group or sub-group of financial instruments. This is to ensure that an entity meets the objective

of recognizing lifetime expected credit losses when there are significant increases in credit risk, even if evidence of such significant increases in credit risk at the individual instrument level is not yet available.

AG166. Lifetime expected credit losses are generally expected to be recognized before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.

AG167. However, depending on the nature of the financial instruments and the credit risk information available for particular groups of financial instruments, an entity may not be able to identify significant changes in credit risk for individual financial instruments before the financial instrument becomes past due. This may be the case for financial instruments such as student loans for which there is little or no updated credit risk information that is routinely obtained and monitored on an individual instrument until a borrower breaches the contractual terms. If changes in the credit risk for individual financial instruments are not captured before they become past due, a loss allowance based only on credit information at an individual financial instrument level would not faithfully represent the changes in credit risk since initial recognition.

AG168. In some circumstances an entity does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime expected credit losses on an individual instrument basis. In that case, lifetime expected credit losses shall be recognized on a collective basis that considers comprehensive credit risk information. This comprehensive credit risk information must incorporate not only past due information but also all relevant credit information, including forward-looking macroeconomic information, in order to approximate the result of recognizing lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition on an individual instrument level.

AG169. For the purpose of determining significant increases in credit risk and recognizing a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The entity should not obscure this information by grouping financial instruments with different risk characteristics. Examples of shared credit risk characteristics may include, but are not limited to, the:

(a) Instrument type;

(b) Credit risk ratings;

(c) Collateral type;

(d) Date of initial recognition;

(e) Remaining term to maturity;

(f) Industry;

(g) Geographical location of the borrower; and

(h) The value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (for example, non-recourse loans in some jurisdictions or loan-to-value ratios).

AG170. Paragraph 76 requires that lifetime expected credit losses are recognized on all financial instruments for which there has been significant increases in credit risk since initial recognition. In order to meet this objective, if an entity is not able to group financial instruments for which the credit risk is considered to have increased significantly since initial recognition based on shared credit risk characteristics, the entity should recognize lifetime expected credit losses on a portion of the financial assets for which credit risk is deemed to have increased significantly. The aggregation of financial instruments to assess whether there are changes in

credit risk on a collective basis may change over time as new information becomes available on groups of, or individual, financial instruments.

Timing of Recognizing Lifetime Expected Credit Losses

AG171. The assessment of whether lifetime expected credit losses should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition (irrespective of whether a financial instrument has been repriced to reflect an increase in credit risk) instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. Generally, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs.

AG172. For loan commitments, an entity considers changes in the risk of a default occurring on the loan to which a loan commitment relates. For financial guarantee contracts, an entity considers the changes in the risk that the specified debtor will default on the contract.

AG173. The significance of a change in the credit risk since initial recognition depends on the risk of a default occurring as at initial recognition. Thus, a given change, in absolute terms, in the risk of a default occurring will be more significant for a financial instrument with a lower initial risk of a default occurring compared to a financial instrument with a higher initial risk of a default occurring.

AG174. The risk of a default occurring on financial instruments that have comparable credit risk is higher the longer the expected life of the instrument; for example, the risk of a default occurring on an AAA-rated bond with an expected life of 10 years is higher than that on an AAA-rated bond with an expected life of five years.

AG175. Because of the relationship between the expected life and the risk of a default occurring, the change in credit risk cannot be assessed simply by comparing the change in the absolute risk of a default occurring over time. For example, if the risk of a default occurring for a financial instrument with an expected life of 10 years at initial recognition is identical to the risk of a default occurring on that financial instrument when its expected life in a subsequent period is only five years, that may indicate an increase in credit risk. This is because the risk of a default occurring over the expected life usually decreases as time passes if the credit risk is unchanged and the financial instrument is closer to maturity. However, for financial instruments that only have significant payment obligations close to the maturity of the financial instrument the risk of a default occurring may not necessarily decrease as time passes. In such a case, an entity should also consider other qualitative factors that would demonstrate whether credit risk has increased significantly since initial recognition.

AG176. An entity may apply various approaches when assessing whether the credit risk on a financial instrument has increased significantly since initial recognition or when measuring expected credit losses. An entity may apply different approaches for different financial instruments. An approach that does not include an explicit probability of default as an input per se, such as a credit loss rate approach, can be consistent with the requirements in this Standard, provided that an entity is able to separate the changes in the risk of a default occurring from changes in other drivers of expected credit losses, such as collateral, and considers the following when making the assessment:

(a) The change in the risk of a default occurring since initial recognition;

(b) The expected life of the financial instrument; and

(c) Reasonable and supportable information that is available without undue cost or effort that may affect credit risk.

AG177. The methods used to determine whether credit risk has increased significantly on a financial instrument since initial recognition should consider the characteristics of the financial instrument (or group of financial instruments) and the default patterns in the past for comparable financial instruments. Despite the

requirement in paragraph 81, for financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring. In such cases, an entity may use changes in the risk of a default occurring over the next 12 months to determine whether credit risk has increased significantly since initial recognition, unless circumstances indicate that a lifetime assessment is necessary.

AG178. However, for some financial instruments, or in some circumstances, it may not be appropriate to use changes in the risk of a default occurring over the next 12 months to determine whether lifetime expected credit losses should be recognized. For example, the change in the risk of a default occurring in the next 12 months may not be a suitable basis for determining whether credit risk has increased on a financial instrument with a maturity of more than 12 months when:

(a) The financial instrument only has significant payment obligations beyond the next 12 months;

(b) Changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or

(c) Changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months.

Determining Whether Credit Risk has Increased Significantly since Initial Recognition

AG179. When determining whether the recognition of lifetime expected credit losses is required, an entity shall consider reasonable and supportable information that is available without undue cost or effort and that may affect the credit risk on a financial instrument in accordance with paragraph 90(c). An entity need not undertake an exhaustive search for information when determining whether credit risk has increased significantly since initial recognition.

AG180. Credit risk analysis is a multifactor and holistic analysis; whether a specific factor is relevant, and its weight compared to other factors, will depend on the type of product, characteristics of the financial instruments and the borrower as well as the geographical region. An entity shall consider reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed. However, some factors or indicators may not be identifiable on an individual financial instrument level. In such a case, the factors or indicators should be assessed for appropriate portfolios, groups of portfolios or portions of a portfolio of financial instruments to determine whether the requirement in paragraph 75 for the recognition of lifetime expected credit losses has been met.

AG181. The following non-exhaustive list of information may be relevant in assessing changes in credit risk:

(a) Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument or similar financial instrument with the same terms and the same counterparty were newly originated or issued at the reporting date.

(b) Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date (such as more stringent covenants, increased amounts of collateral or guarantees, or higher revenue coverage) because of changes in the credit risk of the financial instrument since initial recognition.

(c) Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life. Changes in market indicators of credit risk include, but are not limited to:

(i) The credit spread;

(ii) The credit default swap prices for the borrower;

(iii) The length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; and

(iv) Other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments.

(d) An actual or expected significant change in the financial instrument's external credit rating.

(e) An actual or expected internal credit rating downgrade for the borrower or decrease in behavioral scoring used to assess credit risk internally. Internal credit ratings and internal behavioral scoring are more reliable when they are mapped to external ratings or supported by default studies.

(f) Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.

(g) An actual or expected significant change in the operating results of the borrower. Examples include actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of operation or organizational structure (such as the discontinuance of a segment of the entity) that results in a significant change in the borrower's ability to meet its debt obligations.

(h) Significant increases in credit risk on other financial instruments of the same borrower.

(i) An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology.

(j) Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring. For example, if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages.

(k) A significant change in the quality of the guarantee provided by an entity's owners (or an individual's guarantors) if the shareholder (or guarantors) have an incentive and financial ability to prevent default by capital or cash infusion.

(l) Significant changes, such as reductions in financial support from a controlling entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments. Credit quality enhancements or support include the consideration of the financial condition of the guarantor and/or, for interests issued in securitizations, whether subordinated interests are expected to be capable of absorbing expected credit losses (for example, on the loans underlying the security).

(m) Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.

(n) Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the economic entity (for example, an increase in the expected number or extent of delayed contractual payments).

(o) Changes in the entity's credit management approach in relation to the financial instrument; i.e., based on emerging indicators of changes in the credit risk of the financial instrument, the entity's credit risk management practice is expected to become more active or to be focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the entity specifically intervening with the borrower.

(p) Past due information, including the rebuttable presumption as set out in paragraph 83.

AG182. In some cases, the qualitative and non-statistical quantitative information available may be sufficient to determine that a financial instrument has met the criterion for the recognition of a loss allowance at an amount equal to lifetime expected credit losses. That is, the information does not need to flow through a statistical model or credit ratings process in order to determine whether there has been a significant increase in the credit risk of the financial instrument. In other cases, an entity may need to consider other information, including information from its statistical models or credit ratings processes. Alternatively, the entity may base the assessment on both types of information, i.e., qualitative factors that are not captured through the internal ratings process and a specific internal rating category at the reporting date, taking into consideration the credit risk characteristics at initial recognition, if both types of information are relevant.

More than 30 Days Past Due Rebuttable Presumption

AG183. The rebuttable presumption in paragraph 83 is not an absolute indicator that lifetime expected credit losses should be recognized, but is presumed to be the latest point at which lifetime expected credit losses should be recognized even when using forward-looking information (including macroeconomic factors on a portfolio level).

AG184. An entity can rebut this presumption. However, it can do so only when it has reasonable and supportable information available that demonstrates that even if contractual payments become more than 30 days past due, this does not represent a significant increase in the credit risk of a financial instrument. For example when non-payment was an administrative oversight, instead of resulting from financial difficulty of the borrower, or the entity has access to historical evidence that demonstrates that there is no correlation between significant increases in the risk of a default occurring and financial assets on which payments are more than 30 days past due, but that evidence does identify such a correlation when payments are more than 60 days past due.

AG185. An entity cannot align the timing of significant increases in credit risk and the recognition of lifetime expected credit losses to when a financial asset is regarded as credit-impaired or an entity's internal definition of default.

Financial Instruments that have Low Credit Risk at the Reporting Date

AG186. The credit risk on a financial instrument is considered low for the purposes of paragraph 82, if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. Financial instruments are not considered to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the entity's other financial instruments or relative to the credit risk of the jurisdiction within which an entity operates.

AG187. To determine whether a financial instrument has low credit risk, an entity may use its internal credit risk ratings or other methodologies that are consistent with a globally understood definition of low credit risk and that consider the risks and the type of financial instruments that are being assessed. An external rating of

'investment grade' is an example of a financial instrument that may be considered as having low credit risk. However, financial instruments are not required to be externally rated to be considered to have low credit risk. They should, however, be considered to have low credit risk from a market participant perspective taking into account all of the terms and conditions of the financial instrument.

AG188. Lifetime expected credit losses are not recognized on a financial instrument simply because it was considered to have low credit risk in the previous reporting period and is not considered to have low credit risk at the reporting date. In such a case, an entity shall determine whether there has been a significant increase in credit risk since initial recognition and thus whether lifetime expected credit losses are required to be recognized in accordance with paragraph 75.

Modifications

AG189. In some circumstances, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset in accordance with this Standard. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset for the purposes of this Standard.

AG190. Accordingly the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses until the requirements for the recognition of lifetime expected credit losses in paragraph 75 are met. However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset should be recognized as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit-impaired at initial recognition.

AG191. If the contractual cash flows on a financial asset have been renegotiated or otherwise modified, but the financial asset is not derecognized, that financial asset is not automatically considered to have lower credit risk. An entity shall assess whether there has been a significant increase in credit risk since initial recognition on the basis of all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification. Evidence that the criteria for the recognition of lifetime expected credit losses are no longer met may include a history of up-to-date and timely payment performance against the modified contractual terms. Typically a borrower would need to demonstrate consistently good payment behavior over a period of time before the credit risk is considered to have decreased. For example, a history of missed or incomplete payments would not typically be erased by simply making one payment on time following a modification of the contractual terms.

Measurement of Expected Credit Losses

Expected Credit Losses

AG192. Expected credit losses are a probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

AG193. For financial assets, a credit loss is the present value of the difference between:

(a) The contractual cash flows that are due to an entity under the contract; and

(b) The cash flows that the entity expects to receive.

AG194. For undrawn loan commitments, a credit loss is the present value of the difference between:

(a) The contractual cash flows that are due to the entity if the holder of the loan commitment draws down the loan; and

(b) The cash flows that the entity expects to receive if the loan is drawn down.

AG195. An entity's estimate of expected credit losses on loan commitments shall be consistent with its expectations of drawdowns on that loan commitment, i.e., it shall consider the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month expected credit losses, and the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment when estimating lifetime expected credit losses.

AG196. For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

AG197. For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognized in surplus or deficit as an impairment gain or loss.

AG198. When measuring a loss allowance for a lease receivable, the cash flows used for determining the expected credit losses should be consistent with the cash flows used in measuring the lease receivable in accordance with IPSAS 43, Leases.

AG199. An entity may use practical expedients when measuring expected credit losses if they are consistent with the principles in paragraph 90. An example of a practical expedient is the calculation of the expected credit losses on receivables using a provision matrix. The entity would use its historical credit loss experience (adjusted as appropriate in accordance with paragraphs AG215–AG216) for receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant. A provision matrix might, for example, specify fixed provision rates depending on the number of days that a trade receivable is past due (for example, 1 percent if not past due, 2 percent if less than 30 days past due, 3 percent if more than 30 days but less than 90 days past due, 20 percent if 90-180 days past due etc.). Depending on the diversity of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group assets include geographical region, product type, customer rating, collateral or trade credit insurance and type of customer (such as other government entities or individuals).

Definition of Default

AG200. Paragraph 81 requires that when determining whether the credit risk on a financial instrument has increased significantly, an entity shall consider the change in the risk of a default occurring since initial recognition.

AG201. When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for

the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

Period Over Which to Estimate Expected Credit Losses

AG202. In accordance with paragraph 92, the maximum period over which expected credit losses shall be measured is the maximum contractual period over which the entity is exposed to credit risk. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit.

AG203. However, in accordance with paragraph 93, some financial instruments include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For example, revolving credit facilities, such as line of credit provided by a government owned bank, can be contractually withdrawn by the lender with as little as one day's notice. However, in practice lenders continue to extend credit for a longer period and may only withdraw the facility after the credit risk of the borrower increases, which could be too late to prevent some or all of the expected credit losses. These financial instruments generally have the following characteristics as a result of the nature of the financial instrument, the way in which the financial instruments are managed, and the nature of the available information about significant increases in credit risk:

(a) The financial instruments do not have a fixed term or repayment structure and usually have a short contractual cancellation period (for example, one day);

(b) The contractual ability to cancel the contract is not enforced in the normal day-to-day management of the financial instrument and the contract may only be canceled when the entity becomes aware of an increase in credit risk at the facility level; and

(c) The financial instruments are managed on a collective basis.

AG204. When determining the period over which the entity is expected to be exposed to credit risk, but for which expected credit losses would not be mitigated by the entity's normal credit risk management actions, an entity should consider factors such as historical information and experience about:

(a) The period over which the entity was exposed to credit risk on similar financial instruments;

(b) The length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and

(c) The credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

Probability-weighted Outcome

AG205. The purpose of estimating expected credit losses is neither to estimate a worst-case scenario nor to estimate the best-case scenario. Instead, an estimate of expected credit losses shall always reflect the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcome is no credit loss.

AG206. Paragraph 90(a) requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not

need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected credit losses shall reflect at least two outcomes in accordance with paragraph 91.

AG207. For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring. Thus, 12-month expected credit losses are neither the lifetime expected credit losses that an entity will incur on financial instruments that it predicts will default in the next 12 months nor the cash shortfalls that are predicted over the next 12 months.

Time Value of Money

AG208. Expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof. If a financial instrument has a variable interest rate, expected credit losses shall be discounted using the current effective interest rate determined in accordance with paragraph AG160.

AG209. For purchased or originated credit-impaired financial assets, expected credit losses shall be discounted using the credit-adjusted effective interest rate determined at initial recognition.

AG210. Expected credit losses on lease receivables shall be discounted using the same discount rate used in the measurement of the lease receivable in accordance with IPSAS 43, *Leases*.

AG211. The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognizing the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognized following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date that the entity became a party to the irrevocable commitment.

AG212. Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Reasonable and Supportable Information

AG213. For the purpose of this Standard, reasonable and supportable information is that which is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. Information that is available for financial reporting purposes is considered to be available without undue cost or effort.

AG214. An entity is not required to incorporate forecasts of future conditions over the entire expected life of a financial instrument. The degree of judgment that is required to estimate expected credit losses depends on the availability of detailed information. As the forecast horizon increases, the availability of detailed information decreases and the degree of judgment required to estimate expected credit losses increases. The estimate

of expected credit losses does not require a detailed estimate for periods that are far in the future—for such periods, an entity may extrapolate projections from available, detailed information.

AG215. An entity need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses, including the effect of expected prepayments. The information used shall include factors that are specific to the borrower, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. An entity may use various sources of data that may be both internal (entity-specific) and external. Possible data sources include internal historical credit loss experience, internal ratings, credit loss experience of other entities and external ratings, reports and statistics. Entities that have no, or insufficient, sources of entity-specific data may use peer group experience for the comparable financial instrument (or groups of financial instruments).

AG216. Historical information is an important anchor or base from which to measure expected credit losses. However, an entity shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows. In some cases, the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered. Estimates of changes in expected credit losses should reflect, and be directionally consistent with, changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of credit losses on the financial instrument or in the group of financial instruments and in the magnitude of those changes). An entity shall regularly review the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience.

AG217. When using historical credit loss experience in estimating expected credit losses, it is important that information about historical credit loss rates is applied to groups that are defined in a manner that is consistent with the groups for which the historical credit loss rates were observed. Consequently, the method used shall enable each group of financial assets to be associated with information about past credit loss experience in groups of financial assets with similar risk characteristics and with relevant observable data that reflects current conditions.

AG218. Expected credit losses reflect an entity’s own expectations of credit losses. However, when considering all reasonable and supportable information that is available without undue cost or effort in estimating expected credit losses, an entity should also consider observable market information about the credit risk of the particular financial instrument or similar financial instruments.

Collateral

AG219. For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognized separately by the entity. The estimate of expected cash shortfalls on a collateralized financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable (i.e., the estimate of expected cash flows considers the probability of a foreclosure and the cash flows that would result from it). Consequently, any cash flows that are expected from the realization of the collateral beyond the contractual maturity of the contract should be included in this analysis. Any collateral obtained as a result of foreclosure is not recognized as an asset that is separate from the collateralized financial instrument unless it meets the relevant recognition criteria for an asset in this or other Standards.

Reclassification of Financial Assets

AG220. If an entity reclassifies financial assets in accordance with paragraph 54, paragraph 94 requires that the reclassification is applied prospectively from the reclassification date. Both the amortized cost measurement category and the fair value through net assets/equity measurement category require that the effective interest rate is determined at initial recognition. Both of those measurement categories also require that the impairment requirements are applied in the same way. Consequently, when an entity reclassifies a financial asset between the amortized cost measurement category and the fair value through net assets/equity measurement category:

(a) The recognition of interest revenue will not change and therefore the entity continues to use the same effective interest rate.

(b) The measurement of expected credit losses will not change because both measurement categories apply the same impairment approach. However if a financial asset is reclassified out of the fair value through net assets/equity measurement category and into the amortized cost measurement category, a loss allowance would be recognized as an adjustment to the gross carrying amount of the financial asset from the reclassification date. If a financial asset is reclassified out of the amortized cost measurement category and into the fair value through net assets/equity measurement category, the loss allowance would be derecognized (and thus would no longer be recognized as an adjustment to the gross carrying amount) but instead would be recognized as an accumulated impairment amount (of an equal amount) in net assets/equity and would be disclosed from the reclassification date.

AG221. However, an entity is not required to separately recognize interest revenue or impairment gains or losses for a financial asset measured at fair value through surplus or deficit. Consequently, when an entity reclassifies a financial asset out of the fair value through surplus or deficit measurement category, the effective interest rate is determined on the basis of the fair value of the asset at the reclassification date. In addition, for the purposes of applying paragraphs 73–93 to the financial asset from the reclassification date, the date of the reclassification is treated as the date of initial recognition.

Gains and Losses

AG222. Paragraph 106 permits an entity to make an irrevocable election to present in net assets/equity changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (i.e., share-by-share) basis. Amounts presented in net assets/equity shall not be subsequently transferred to surplus or deficit. However, the entity may transfer the cumulative gain or loss within net assets/equity. Dividends or similar distributions on such investments are recognized in surplus or deficit in accordance with paragraph 107 unless the dividend clearly represents a recovery of part of the cost of the investment.

AG223. Unless paragraph 44 applies, paragraph 41 requires that a financial asset is measured at fair value through net assets/equity if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and the asset is held in a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets. This measurement category recognizes information in surplus or deficit as if the financial asset is measured at amortized cost, while the financial asset is measured in the statement of financial position at fair value. Gains or losses, other than those that are recognized in surplus or deficit in accordance with paragraphs 111–112, are recognized in net assets/equity. When these financial assets are derecognized, cumulative gains or losses previously recognized in net assets/equity are reclassified to surplus or deficit. This reflects the gain or loss that would have been recognized in surplus or deficit upon derecognition if the financial asset had been measured at amortized cost.

AG224. An entity applies IPSAS 4 to financial assets and financial liabilities that are monetary items in accordance with IPSAS 4 and denominated in a foreign currency. IPSAS 4 requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognized in surplus or deficit. An exception is a monetary item that is designated as a hedging instrument in a cash flow hedge (see paragraph 140), a hedge of a net investment (see paragraph 142) or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 106 (see paragraph 137).

AG225. For the purpose of recognizing foreign exchange gains and losses under IPSAS 4, a financial asset measured at fair value through net assets/equity in accordance with paragraph 41 is treated as a monetary item. Accordingly, such a financial asset is treated as an asset measured at amortized cost in the foreign currency. Exchange differences on the amortized cost are recognized in surplus or deficit and other changes in the carrying amount are recognized in accordance with paragraph 111.

AG226. Paragraph 106 permits an entity to make an irrevocable election to present in net assets/equity subsequent changes in the fair value of particular investments in equity instruments. Such an investment is not a monetary item. Accordingly, the gain or loss that is presented in net assets/equity in accordance with paragraph 106 includes any related foreign exchange component.

AG227. If there is a hedging relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in the foreign currency component of those financial instruments are presented in surplus or deficit.

Liabilities Designated as at Fair Value through Surplus or Deficit

AG228. When an entity designates a financial liability as at fair value through surplus or deficit, it must determine whether presenting in net assets/equity the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in surplus or deficit. An accounting mismatch would be created or enlarged if presenting the effects of changes in the liability's credit risk in net assets/equity would result in a greater mismatch in surplus or deficit than if those amounts were presented in surplus or deficit.

AG229. To make that determination, an entity must assess whether it expects that the effects of changes in the liability's credit risk will be offset in surplus or deficit by a change in the fair value of another financial instrument measured at fair value through surplus or deficit. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

AG230. That determination is made at initial recognition and is not reassessed. For practical purposes the entity need not enter into all of the assets and liabilities giving rise to an accounting mismatch at exactly the same time. A reasonable delay is permitted provided that any remaining transactions are expected to occur. An entity must apply consistently its methodology for determining whether presenting in net assets/equity the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in surplus or deficit. However, an entity may use different methodologies when there are different economic relationships between the characteristics of the liabilities designated as at fair value through surplus or deficit and the characteristics of the other financial instruments. IPSAS 30 requires an entity to provide qualitative disclosures in the notes to the financial statements about its methodology for making that determination.

AG231. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in surplus or deficit. If such a mismatch would not be created or enlarged, the entity is required to present the effects of changes in the liability's credit risk in net assets/equity.

AG232. Amounts presented in net assets/equity shall not be subsequently transferred to surplus or deficit. However, the entity may transfer the cumulative gain or loss within equity.

AG233. The following example describes a situation in which an accounting mismatch would be created in surplus or deficit if the effects of changes in the credit risk of the liability were presented in net assets/equity. A Federal Mortgage and Housing Corporation provides loans to customers and funds those loans by selling bonds with matching characteristics (e.g., amount outstanding, repayment profile, term and currency) in the market. The contractual terms of the loan permit the mortgage customer to prepay its loan (i.e., satisfy its obligation to the bank) by buying the corresponding bond at fair value in the market and delivering that bond to the Mortgage and Housing Corporation. As a result of that contractual prepayment right, if the credit quality of the bond worsens (and, thus, the fair value of the Mortgage and Housing Corporation's liability decreases), the fair value of the Mortgage and Housing Corporation's loan asset also decreases. The change in the fair value of the asset reflects the mortgage customer's contractual right to prepay the mortgage loan by buying the underlying bond at fair value (which, in this example, has decreased) and delivering the bond to the Mortgage and Housing Corporation. Consequently, the effects of changes in the credit risk of the liability (the bond) will be offset in surplus or deficit by a corresponding change in the fair value of a financial asset (the loan). If the effects of changes in the liability's credit risk were presented in net assets/equity there would be an accounting mismatch in surplus or deficit. Consequently, the Mortgage and Housing Corporation is required to present all changes in fair value of the liability (including the effects of changes in the liability's credit risk) in surplus or deficit.

AG234. In the example in paragraph AG233, there is a contractual linkage between the effects of changes in the credit risk of the liability and changes in the fair value of the financial asset (i.e., as a result of the mortgage customer's contractual right to prepay the loan by buying the bond at fair value and delivering the bond to the Mortgage and Housing Corporation). However, an accounting mismatch may also occur in the absence of a contractual linkage.

AG235. For the purposes of applying the requirements in paragraphs 108 and 109, an accounting mismatch is not caused solely by the measurement method that an entity uses to determine the effects of changes in a liability's credit risk. An accounting mismatch in surplus or deficit would arise only when the effects of changes in the liability's credit risk (as defined in IPSAS 30) are expected to be offset by changes in the fair value of another financial instrument. A mismatch that arises solely as a result of the measurement method (i.e., because an entity does not isolate changes in a liability's credit risk from some other changes in its fair value) does not affect the determination required by paragraphs 108 and 109. For example, an entity may not isolate changes in a liability's credit risk from changes in liquidity risk. If the entity presents the combined effect of both factors in net assets/equity, a mismatch may occur because changes in liquidity risk may be included in the fair value measurement of the entity's financial assets and the entire fair value change of those assets is presented in surplus or deficit. However, such a mismatch is caused by measurement imprecision, not the offsetting relationship described in paragraph AG229 and, therefore, does not affect the determination required by paragraphs 108 and 109.

The Meaning of 'Credit Risk' (paragraphs 108 and 109)

AG236. IPSAS 30 defines credit risk as 'the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation'. The requirement in paragraph 108(a) relates to the risk that the issuer will fail to perform on that particular liability. It does not necessarily relate to the creditworthiness of the issuer. For example, if an entity issues a collateralized liability and a non-collateralized liability that are otherwise identical, the credit risk of those two liabilities will be different, even though they are issued by the same entity. The credit risk on the collateralized liability will be less than the credit risk of the non-collateralized liability. The credit risk for a collateralized liability may be close to zero.

AG237. For the purposes of applying the requirement in paragraph 108(a), credit risk is different from asset-specific performance risk. Asset-specific performance risk is not related to the risk that an entity will fail to discharge a particular obligation but instead it is related to the risk that a single asset or a group of assets will perform poorly (or not at all).

AG238. The following are examples of asset-specific performance risk:

(a) A liability with a unit-linking feature whereby the amount due to investors is contractually determined on the basis of the performance of specified assets. The effect of that unit-linking feature on the fair value of the liability is asset-specific performance risk, not credit risk.

(b) A liability issued by a structured entity with the following character-istics. The entity is legally isolated so the assets in the entity are ring-fenced solely for the benefit of its investors, even in the event of bankruptcy. The entity enters into no other transactions and the assets in the entity cannot be hypothecated. Amounts are due to the entity's investors only if the ring-fenced assets generate cash flows. Thus, changes in the fair value of the liability primarily reflect changes in the fair value of the assets. The effect of the performance of the assets on the fair value of the liability is asset-specific performance risk, not credit risk.

Determining the Effects of Changes in Credit Risk

AG239. For the purposes of applying the requirement in paragraph 108(a), an entity shall determine the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability either:

(c) As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see paragraphs AG240 and AG241); or

(d) Using an alternative method the entity believes more faithfully represents the amount of change in the liability's fair value that is attributable to changes in its credit risk.

AG240. Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates.

AG241. If the only significant relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, the amount in paragraph AG239(a) can be estimated as follows:

(a) First, the entity computes the liability's internal rate of return at the start of the period using the fair value of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.

(b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a).

(c) The difference between the fair value of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be presented in net assets/equity in accordance with paragraph 108(a).

AG242. The example in paragraph AG241 assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in observed (benchmark) interest rates are not significant. This method would not be appropriate if changes in fair value arising from other factors are significant. In those cases, an entity is required to use an alternative method that more faithfully measures the effects of changes

in the liability's credit risk (see paragraph AG239(b)). For example, if the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be presented in net assets/equity in accordance with paragraph 108(a).

AG243. As with all fair value measurements, an entity's measurement method for determining the portion of the change in the liability's fair value that is attributable to changes in its credit risk must make maximum use of relevant observable inputs and minimum use of unobservable inputs.

Hedge Accounting

Hedging Instruments

Qualifying Instruments

AG244. Derivatives that are embedded in hybrid contracts, but that are not separately accounted for, cannot be designated as separate hedging instruments.

AG245. An entity's own equity instruments are not financial assets or financial liabilities of the entity and therefore cannot be designated as hedging instruments.

AG246. For hedges of foreign currency risk, the foreign currency risk component of a non-derivative financial instrument is determined in accordance with IPSAS 4.

Written Options

AG247. This Standard does not restrict the circumstances in which a derivative that is measured at fair value through surplus or deficit may be designated as a hedging instrument, except for some written options. A written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option, including one that is embedded in another financial instrument (for example, a written call option used to hedge a callable liability).

Designation of Hedging Instruments

AG248. For hedges other than hedges of foreign currency risk, when an entity designates a non-derivative financial asset or a non-derivative financial liability measured at fair value through surplus or deficit as a hedging instrument, it may only designate the non-derivative financial instrument in its entirety or a proportion of it.

AG249. A single hedging instrument may be designated as a hedging instrument of more than one type of risk, provided that there is a specific designation of the hedging instrument and of the different risk positions as hedged items. Those hedged items can be in different hedging relationships.

Hedged Items

Qualifying Items

AG250. A firm commitment to acquire an operation in a public sector combination cannot be a hedged item, except for foreign currency risk, because the other risks being hedged cannot be specifically identified and measured. Those other risks are general business risks.

AG251. An equity method investment cannot be a hedged item in a fair value hedge. This is because the equity method recognizes in surplus or deficit the investor's share of the investee's surplus or deficit, instead of changes in the investment's fair value. For a similar reason, an investment in a consolidated controlled entity cannot be a hedged item in a fair value hedge. This is because consolidation recognizes in surplus or deficit the controlled entity's surplus or deficit, instead of changes in the investment's fair value. A hedge of a net investment in a foreign operation is different because it is a hedge of the foreign currency exposure, not a fair value hedge of the change in the value of the investment.

AG252. Paragraph 125 permits an entity to designate as hedged items aggregated exposures that are a combination of an exposure and a derivative. When designating such a hedged item, an entity assesses whether the aggregated exposure combines an exposure with a derivative so that it creates a different aggregated exposure that is managed as one exposure for a particular risk (or risks). In that case, the entity may designate the hedged item on the basis of the aggregated exposure. For example:

(a) An entity may hedge a given quantity of highly probable oil purchases in 15 months' time against price risk (based on US dollars) using a 15-month futures contract for oil. The highly probable oil purchases and the futures contract for oil in combination can be viewed as a 15-month fixed-amount US dollar foreign currency risk exposure for risk management purposes (i.e., like any fixed-amount US dollar cash outflow in 15 months' time).

(b) An entity may hedge the foreign currency risk for the entire term of a 10-year fixed-rate debt denominated in a foreign currency. However, the entity requires fixed-rate exposure in its functional currency only for a short to medium-term (say two years) and floating rate exposure in its functional currency for the remaining term to maturity. At the end of each of the two-year intervals (i.e., on a two-year rolling basis) the entity fixes the next two years' interest rate exposure (if the interest level is such that the entity wants to fix interest rates). In such a situation an entity may enter into a 10-year fixed-to-floating cross-currency interest rate swap that swaps the fixed-rate foreign currency debt into a variable-rate functional currency exposure. This is overlaid with a two-year interest rate swap that—on the basis of the functional currency—swaps variable-rate debt into fixed-rate debt. In effect, the fixed-rate foreign currency debt and the 10-year fixed-to-floating cross-currency interest rate swap in combination are viewed as a 10-year variable-rate debt functional currency exposure for risk management purposes.

AG253. When designating the hedged item on the basis of the aggregated exposure, an entity considers the combined effect of the items that constitute the aggregated exposure for the purpose of assessing hedge effectiveness and measuring hedge ineffectiveness. However, the items that constitute the aggregated exposure remain accounted for separately. This means that, for example:

(a) Derivatives that are part of an aggregated exposure are recognized as separate assets or liabilities measured at fair value; and

(b) If a hedging relationship is designated between the items that constitute the aggregated exposure, the way in which a derivative is included as part of an aggregated exposure must be consistent with the designation of that derivative as the hedging instrument at the level of the aggregated exposure. For example, if an entity excludes the forward element of a derivative from its designation as the hedging instrument for the hedging relationship between the items that constitute the aggregated exposure, it must also exclude the forward element when including that derivative as a hedged item as part of the aggregated exposure. Otherwise, the aggregated exposure shall include a derivative, either in its entirety or a proportion of it.

AG254. Paragraph 127 states that in consolidated financial statements the foreign currency risk of a highly probable forecast transaction within an economic entity may qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect consolidated surplus or deficit. For this purpose an entity can be a controlling entity, controlled entity, associate, joint arrangement or branch. If the foreign currency risk of a forecast transaction within the economic entity does not affect consolidated surplus or deficit, the transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same economic entity, unless there is a related external transaction. However, when the foreign currency risk of a forecast transaction within an economic entity will affect consolidated surplus or deficit, the transaction within the economic entity can qualify as a

hedged item. An example is forecast sales or purchases of inventories between members of the same economic entity if there is an onward sale of the inventory to a party external to the economic entity. Similarly, a forecast sale of plant and equipment within the economic entity from the entity that manufactured it to an entity that will use the plant and equipment in its operations may affect consolidated surplus or deficit. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognized for the plant and equipment may change if the forecast transaction within the economic entity is denominated in a currency other than the functional currency of the purchasing entity.

AG255. If a hedge of a forecast transaction within an economic entity qualifies for hedge accounting, any gain or loss is recognized in, and taken out of, net assets/equity in accordance with paragraph 140. The relevant period or periods during which the foreign currency risk of the hedged transaction affects surplus or deficit is when it affects consolidated surplus or deficit.

Designation of Hedged Items

AG256. A component is a hedged item that is less than the entire item. Consequently, a component reflects only some of the risks of the item of which it is a part or reflects the risks only to some extent (for example, when designating a proportion of an item).

Risk Components

AG257. To be eligible for designation as a hedged item, a risk component must be a separately identifiable component of the financial or the non-financial item, and the changes in the cash flows or the fair value of the item attributable to changes in that risk component must be reliably measurable.

AG258. When identifying what risk components qualify for designation as a hedged item, an entity assesses such risk components within the context of the particular market structure to which the risk or risks relate and in which the hedging activity takes place. Such a determination requires an evaluation of the relevant facts and circumstances, which differ by risk and market.

AG259. When designating risk components as hedged items, an entity considers whether the risk components are explicitly specified in a contract (contractually specified risk components) or whether they are implicit in the fair value or the cash flows of an item of which they are a part (non-contractually specified risk components). Non-contractually specified risk components can relate to items that are not a contract (for example, forecast transactions) or contracts that do not explicitly specify the component (for example, a firm commitment that includes only one single price instead of a pricing formula that references different underlyings). For example:

(a) Entity A has a long-term supply contract for natural gas that is priced using a contractually specified formula that references commodities and other factors (for example, gas oil, fuel oil and other components such as transport charges). Entity A hedges the gas oil component in that supply contract using a gas oil forward contract. Because the gas oil component is specified by the terms and conditions of the supply contract it is a contractually specified risk component. Hence, because of the pricing formula, Entity A concludes that the gas oil price exposure is separately identifiable. At the same time, there is a market for gas oil forward contracts. Hence, Entity A concludes that the gas oil price exposure is reliably measurable. Consequently, the gas oil price exposure in the supply contract is a risk component that is eligible for designation as a hedged item.

(b) Entity B hedges its future coffee purchases based on its production forecast. Hedging starts up to 15 months before delivery for part of the forecast purchase volume. Entity B increases the hedged volume over time (as the delivery date approaches). Entity B uses two different types of contracts to manage its coffee price risk:

(i) Exchange-traded coffee futures contracts; and

(ii) Coffee supply contracts for Arabica coffee from Colombia delivered to a specific manufacturing site. These contracts price a tonne of coffee based on the exchange-traded coffee futures contract price plus a fixed price differential plus a variable logistics services charge using a pricing formula. The coffee supply contract is an executory contract in accordance with which Entity B takes actual delivery of coffee.

For deliveries that relate to the current harvest, entering into the coffee supply contracts allows Entity B to fix the price differential between the actual coffee quality purchased (Arabica coffee from Colombia) and the benchmark quality that is the underlying of the exchange-traded futures contract. However, for deliveries that relate to the next harvest, the coffee supply contracts are not yet available, so the price differential cannot be fixed. Entity B uses exchange-traded coffee futures contracts to hedge the benchmark quality component of its coffee price risk for deliveries that relate to the current harvest as well as the next harvest. Entity B determines that it is exposed to three different risks: coffee price risk reflecting the benchmark quality, coffee price risk reflecting the difference (spread) between the price for the benchmark quality coffee and the particular Arabica coffee from Colombia that it actually receives, and the variable logistics costs. For deliveries related to the current harvest, after Entity B enters into a coffee supply contract, the coffee price risk reflecting the benchmark quality is a contractually specified risk component because the pricing formula includes an indexation to the exchange-traded coffee futures contract price. Entity B concludes that this risk component is separately identifiable and reliably measurable. For deliveries related to the next harvest, Entity B has not yet entered into any coffee supply contracts (i.e., those deliveries are forecast transactions). Hence, the coffee price risk reflecting the benchmark quality is a non-contractually specified risk component. Entity B's analysis of the market structure takes into account how eventual deliveries of the particular coffee that it receives are priced. Hence, on the basis of this analysis of the market structure, Entity B concludes that the forecast transactions also involve the coffee price risk that reflects the benchmark quality as a risk component that is separately identifiable and reliably measurable even though it is not contractually specified. Consequently, Entity B may designate hedging relationships on a risk components basis (for the coffee price risk that reflects the benchmark quality) for coffee supply contracts as well as forecast transactions.

(c) Entity C hedges part of its future jet fuel purchases on the basis of its consumption forecast up to 24 months before delivery and increases the volume that it hedges over time. Entity C hedges this exposure using different types of contracts depending on the time horizon of the hedge, which affects the market liquidity of the derivatives. For the longer time horizons (12–24 months) Entity C uses crude oil contracts because only these have sufficient market liquidity. For time horizons of 6–12 months Entity C uses gas oil derivatives because they are sufficiently liquid. For time horizons up to six months Entity C uses jet fuel contracts. Entity C's analysis of the market structure for oil and oil products and its evaluation of the relevant facts and circumstances is as follows:

(i) Entity C operates in a geographical area in which Brent is the crude oil benchmark. Crude oil is a raw material benchmark that affects the price of various refined oil products as their most basic input. Gas oil is a benchmark for refined oil products, which is used as a pricing reference for oil distillates more generally. This is also reflected in the types of derivative financial instruments for the crude oil and refined oil products markets of the environment in which Entity C operates, such as:

- The benchmark crude oil futures contract, which is for Brent crude oil;

- The benchmark gas oil futures contract, which is used as the pricing reference for distillates—for example, jet fuel spread derivatives cover the price differential between jet fuel and that benchmark gas oil; and
- The benchmark gas oil crack spread derivative (i.e., the derivative for the price differential between crude oil and gas oil—a refining margin), which is indexed to Brent crude oil.

(ii) The pricing of refined oil products does not depend on which particular crude oil is processed by a particular refinery because those refined oil products (such as gas oil or jet fuel) are standardized products.

Hence, Entity C concludes that the price risk of its jet fuel purchases includes a crude oil price risk component based on Brent crude oil and a gas oil price risk component, even though crude oil and gas oil are not specified in any contractual arrangement. Entity C concludes that these two risk components are separately identifiable and reliably measurable even though they are not contractually specified. Consequently, Entity C may designate hedging relationships for forecast jet fuel purchases on a risk components basis (for crude oil or gas oil). This analysis also means that if, for example, Entity C used crude oil derivatives based on West Texas Intermediate (WTI) crude oil, changes in the price differential between Brent crude oil and WTI crude oil would cause hedge ineffectiveness.

(d) Entity D holds a fixed-rate debt instrument. This instrument is issued in an environment with a market in which a large variety of similar debt instruments are compared by their spreads to a benchmark rate (for example, an interbank offered rate) and variable-rate instruments in that environment are typically indexed to that benchmark rate. Interest rate swaps are frequently used to manage interest rate risk on the basis of that benchmark rate, irrespective of the spread of debt instruments to that benchmark rate. The price of fixed-rate debt instruments varies directly in response to changes in the benchmark rate as they happen. Entity D concludes that the benchmark rate is a component that can be separately identified and reliably measured. Consequently, Entity D may designate hedging relationships for the fixed-rate debt instrument on a risk component basis for the benchmark interest rate risk.

AG260. When designating a risk component as a hedged item, the hedge accounting requirements apply to that risk component in the same way as they apply to other hedged items that are not risk components. For example, the qualifying criteria apply, including that the hedging relationship must meet the hedge effectiveness requirements, and any hedge ineffectiveness must be measured and recognized.

AG261. An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a ‘one-sided risk’). The intrinsic value of a purchased option hedging instrument (assuming that it has the same principal terms as the designated risk), but not its time value, reflects a one-sided risk in a hedged item. For example, an entity can designate the variability of future cash flow outcomes resulting from a price increase of a forecast commodity purchase. In such a situation, the entity designates only cash flow losses that result from an increase in the price above the specified level. The hedged risk does not include the time value of a purchased option, because the time value is not a component of the forecast transaction that affects surplus or deficit.

AG262. There is a rebuttable presumption that unless inflation risk is contractually specified, it is not separately identifiable and reliably measurable and hence cannot be designated as a risk component of a financial instrument. However, in limited cases, it is possible to identify a risk component for inflation risk that is separately identifiable and reliably measurable because of the particular circumstances of the inflation environment and the relevant debt market.

AG263. For example, an entity issues debt in an environment in which inflation-linked bonds have a volume and term structure that results in a sufficiently liquid market that allows constructing a term structure of zero-coupon real interest rates. This means that for the respective currency, inflation is a relevant factor that is separately

considered by the debt markets. In those circumstances the inflation risk component could be determined by discounting the cash flows of the hedged debt instrument using the term structure of zero-coupon real interest rates (i.e., in a manner similar to how a risk-free (nominal) interest rate component can be determined). Conversely, in many cases an inflation risk component is not separately identifiable and reliably measurable. For example, an entity issues only nominal interest rate debt in an environment with a market for inflation-linked bonds that is not sufficiently liquid to allow a term structure of zero-coupon real interest rates to be constructed. In this case the analysis of the market structure and of the facts and circumstances does not support the entity concluding that inflation is a relevant factor that is separately considered by the debt markets. Hence, the entity cannot overcome the rebuttable presumption that inflation risk that is not contractually specified is not separately identifiable and reliably measurable. Consequently, an inflation risk component would not be eligible for designation as the hedged item. This applies irrespective of any inflation hedging instrument that the entity has actually entered into. In particular, the entity cannot simply impute the terms and conditions of the actual inflation hedging instrument by projecting its terms and conditions onto the nominal interest rate debt.

AG264. A contractually specified inflation risk component of the cash flows of a recognized inflation-linked bond (assuming that there is no requirement to account for an embedded derivative separately) is separately identifiable and reliably measurable, as long as other cash flows of the instrument are not affected by the inflation risk component.

Components of a Nominal Amount

AG265. There are two types of components of nominal amounts that can be designated as the hedged item in a hedging relationship: a component that is a proportion of an entire item or a layer component. The type of component changes the accounting outcome. An entity shall designate the component for accounting purposes consistently with its risk management objective.

AG266. An example of a component that is a proportion is 50 percent of the contractual cash flows of a loan.

AG267. A layer component may be specified from a defined, but open, population, or from a defined nominal amount. Examples include:

(a) Part of a monetary transaction volume, for example, the next FC10 cash flows from sales denominated in a foreign currency after the first FC20 in March 201X;[4]

(b) A part of a physical volume, for example, the bottom layer, measuring 5 million cubic meters, of the natural gas stored in location XYZ;

(c) A part of a physical or other transaction volume, for example, the first 100 barrels of the oil purchases in June 201X or the first 100 MWh of electricity sales in June 201X; or

(d) A layer from the nominal amount of the hedged item, for example, the last CU80 million of a CU100 million firm commitment, the bottom layer of CU20 million of a CU100 million fixed-rate bond or the top layer of CU30 million from a total amount of CU100 million of fixed-rate debt that can be prepaid at fair value (the defined nominal amount is CU100 million).

AG268. If a layer component is designated in a fair value hedge, an entity shall specify it from a defined nominal amount. To comply with the requirements for qualifying fair value hedges, an entity shall remeasure the hedged item for fair value changes (i.e., remeasure the item for fair value changes attributable to the hedged risk). The fair value hedge adjustment must be recognized in surplus or deficit no later than when the item is derecognized. Consequently, it is necessary to track the item to which the fair value hedge adjustment relates. For a layer component in a fair value hedge, this requires an entity to track the nominal amount from

[4] In this Standard monetary amounts are denominated in ‘currency units’ (CU) and ‘foreign currency units’ (FC).

which it is defined. For example, in paragraph AG267(d), the total defined nominal amount of CU100 million must be tracked in order to track the bottom layer of CU20 million or the top layer of CU30 million.

AG269. A layer component that includes a prepayment option is not eligible to be designated as a hedged item in a fair value hedge if the prepayment option's fair value is affected by changes in the hedged risk, unless the designated layer includes the effect of the related prepayment option when determining the change in the fair value of the hedged item.

Relationship Between Components and the Total Cash Flows of an Item

AG270. If a component of the cash flows of a financial or a non-financial item is designated as the hedged item, that component must be less than or equal to the total cash flows of the entire item. However, all of the cash flows of the entire item may be designated as the hedged item and hedged for only one particular risk (for example, only for those changes that are attributable to changes in a market related interest rate or a benchmark commodity price).

AG271. For example, in the case of a financial liability whose effective interest rate is below a market related interest rate, an entity cannot designate:

(a) A component of the liability equal to interest at the market rate (plus the principal amount in case of a fair value hedge); and

(b) A negative residual component.

AG272. However, in the case of a fixed-rate financial liability whose effective interest rate is (for example) 100 basis points below the market rate, an entity can designate as the hedged item the change in the value of that entire liability (i.e., principal plus interest at the market rate minus 100 basis points) that is attributable to changes in the market rate. If a fixed-rate financial instrument is hedged some time after its origination and interest rates have changed in the meantime, the entity can designate a risk component equal to a benchmark rate that is higher than the contractual rate paid on the item. The entity can do so provided that the benchmark rate is less than the effective interest rate calculated on the assumption that the entity had purchased the instrument on the day when it first designates the hedged item. For example, assume that an entity originates a fixed-rate financial asset of CU100 that has an effective interest rate of 6 percent at a time when the market rate is 4 percent. It begins to hedge that asset some time later when the market rate has increased to 8 percent and the fair value of the asset has decreased to CU90. The entity calculates that if it had purchased the asset on the date it first designates the related the market rate interest rate risk as the hedged item, the effective yield of the asset based on its then fair value of CU90 would have been 9.5 percent. Because the market rate is less than this effective yield, the entity can designate a the market rate component of 8 percent that consists partly of the contractual interest cash flows and partly of the difference between the current fair value (i.e., CU90) and the amount repayable on maturity (i.e., CU100).

AG273. If a variable-rate financial liability bears interest of (for example) the three-month interbank offered rate minus 20 basis points (with a floor at zero basis points), an entity can designate as the hedged item the change in the cash flows of that entire liability (i.e., the three-month interbank offered rate minus 20 basis points—including the floor) that is attributable to changes in the interbank offered rate. Hence, as long as the three-month interbank offered rate forward curve for the remaining life of that liability does not fall below 20 basis points, the hedged item has the same cash flow variability as a liability that bears interest at the three-month interbank offered rate with a zero or positive spread. However, if the three-month interbank offered rate forward curve for the remaining life of that liability (or a part of it) falls below 20 basis points, the hedged item has a lower cash flow variability than a liability that bears interest at three-month interbank offered rate with a zero or positive spread.

AG274. A similar example of a non-financial item is a specific type of crude oil from a particular oil field that is priced off the relevant benchmark crude oil. If an entity sells that crude oil under a contract using a contractual pricing formula that sets the price per barrel at the benchmark crude oil price minus CU10 with a floor of CU15, the entity can designate as the hedged item the entire cash flow variability under the sales contract that is attributable to the change in the benchmark crude oil price. However, the entity cannot designate a component that is equal to the full change in the benchmark crude oil price. Hence, as long as the forward price (for each delivery) does not fall below CU25, the hedged item has the same cash flow variability as a crude oil sale at the benchmark crude oil price (or with a positive spread). However, if the forward price for any delivery falls below CU25, the hedged item has a lower cash flow variability than a crude oil sale at the benchmark crude oil price (or with a positive spread).

Qualifying Criteria for Hedge Accounting

Hedge Effectiveness

AG275. Hedge effectiveness is the extent to which changes in the fair value or the cash flows of the hedging instrument offset changes in the fair value or the cash flows of the hedged item (for example, when the hedged item is a risk component, the relevant change in fair value or cash flows of an item is the one that is attributable to the hedged risk). Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item.

AG276. When designating a hedging relationship and on an ongoing basis, an entity shall analyze the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term. This analysis (including any updates in accordance with paragraph AG314 arising from rebalancing a hedging relationship) is the basis for the entity's assessment of meeting the hedge effectiveness requirements.

AG277. For the avoidance of doubt, the effects of replacing the original counterparty with a clearing counterparty and making the associated changes as described in paragraph 135 shall be reflected in the measurement of the hedging instrument and therefore in the assessment of hedge effectiveness and the measurement of hedge effectiveness.

Economic Relationship Between the Hedged Item and the Hedging Instrument

AG278. The requirement that an economic relationship exists means that the hedging instrument and the hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk. Hence, there must be an expectation that the value of the hedging instrument and the value of the hedged item will systematically change in response to movements in either the same underlying or underlyings that are economically related in such a way that they respond in a similar way to the risk that is being hedged (for example, Brent and WTI crude oil).

AG279. If the underlyings are not the same but are economically related, there can be situations in which the values of the hedging instrument and the hedged item move in the same direction, for example, because the price differential between the two related underlyings changes while the underlyings themselves do not move significantly. That is still consistent with an economic relationship between the hedging instrument and the hedged item if the values of the hedging instrument and the hedged item are still expected to typically move in the opposite direction when the underlyings move.

AG280. The assessment of whether an economic relationship exists includes an analysis of the possible behavior of the hedging relationship during its term to ascertain whether it can be expected to meet the risk management objective. The mere existence of a statistical correlation between two variables does not, by itself, support a valid conclusion that an economic relationship exists.

The Effect of Credit Risk

AG281. Because the hedge accounting model is based on a general notion of offset between gains and losses on the hedging instrument and the hedged item, hedge effectiveness is determined not only by the economic relationship between those items (i.e., the changes in their underlyings) but also by the effect of credit risk on the value of both the hedging instrument and the hedged item. The effect of credit risk means that even if there is an economic relationship between the hedging instrument and the hedged item, the level of offset might become erratic. This can result from a change in the credit risk of either the hedging instrument or the hedged item that is of such a magnitude that the credit risk dominates the value changes that result from the economic relationship (i.e., the effect of the changes in the underlyings). A level of magnitude that gives rise to dominance is one that would result in the loss (or gain) from credit risk frustrating the effect of changes in the underlyings on the value of the hedging instrument or the hedged item, even if those changes were significant. Conversely, if during a particular period there is little change in the underlyings, the fact that even small credit risk-related changes in the value of the hedging instrument or the hedged item might affect the value more than the underlyings does not create dominance.

AG282. An example of credit risk dominating a hedging relationship is when an entity hedges an exposure to commodity price risk using an uncollateralized derivative. If the counterparty to that derivative experiences a severe deterioration in its credit standing, the effect of the changes in the counterparty's credit standing might outweigh the effect of changes in the commodity price on the fair value of the hedging instrument, whereas changes in the value of the hedged item depend largely on the commodity price changes.

Hedge Ratio

AG283. In accordance with the hedge effectiveness requirements, the hedge ratio of the hedging relationship must be the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Hence, if an entity hedges less than 100 percent of the exposure on an item, such as 85 percent, it shall designate the hedging relationship using a hedge ratio that is the same as that resulting from 85 percent of the exposure and the quantity of the hedging instrument that the entity actually uses to hedge those 85 percent. Similarly, if, for example, an entity hedges an exposure using a nominal amount of 40 units of a financial instrument, it shall designate the hedging relationship using a hedge ratio that is the same as that resulting from that quantity of 40 units (i.e., the entity must not use a hedge ratio based on a higher quantity of units that it might hold in total or a lower quantity of units) and the quantity of the hedged item that it actually hedges with those 40 units.

AG284. However, the designation of the hedging relationship using the same hedge ratio as that resulting from the quantities of the hedged item and the hedging instrument that the entity actually uses shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would in turn create hedge ineffectiveness (irrespective of whether recognized or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. Hence, for the purpose of designating a hedging relationship, an entity must adjust the hedge ratio that results from the quantities of the hedged item and the hedging instrument that the entity actually uses if that is needed to avoid such an imbalance.

AG285. Examples of relevant considerations in assessing whether an accounting outcome is inconsistent with the purpose of hedge accounting are:

(a) Whether the intended hedge ratio is established to avoid recognizing hedge ineffectiveness for cash flow hedges, or to achieve fair value hedge adjustments for more hedged items with the aim of increasing the use of fair value accounting, but without offsetting fair value changes of the hedging instrument; and

(b) Whether there is a commercial reason for the particular weightings of the hedged item and the hedging instrument, even though that creates hedge ineffectiveness. For example, an entity enters into and designates a quantity of the hedging instrument that is not the quantity that it determined as the best hedge of the hedged item because the standard volume of the hedging instruments does not allow it to enter into that exact quantity of hedging instrument (a 'lot size issue'). An example is an entity that hedges 1,000 tonnes of oil purchases with standard oil futures contracts that have a contract size of 1,000 barrels. The entity could only use either seven or eight contracts (equivalent to 980 tonnes and 1,120 tonnes respectively) to hedge the purchase volume of 1,000 tonnes. In that case, the entity designates the hedging relationship using the hedge ratio that results from the number of oil futures contracts that it actually uses, because the hedge ineffectiveness resulting from the mismatch in the weightings of the hedged item and the hedging instrument would not result in an accounting outcome that is inconsistent with the purpose of hedge accounting.

Frequency of Assessing Whether the Hedge Effectiveness Requirements are Met

AG286. An entity shall assess at the inception of the hedging relationship, and on an ongoing basis, whether a hedging relationship meets the hedge effectiveness requirements. At a minimum, an entity shall perform the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

Methods for Assessing Whether the Hedge Effectiveness Requirements are Met

AG287. This Standard does not specify a method for assessing whether a hedging relationship meets the hedge effectiveness requirements. However, an entity shall use a method that captures the relevant characteristics of the hedging relationship including the sources of hedge ineffectiveness. Depending on those factors, the method can be a qualitative or a quantitative assessment.

AG288. For example, when the critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of a qualitative assessment of those critical terms that the hedging instrument and the hedged item have values that will generally move in the opposite direction because of the same risk and hence that an economic relationship exists between the hedged item and the hedging instrument (see paragraphs AG278–AG280).

AG289. The fact that a derivative is in or out of the money when it is designated as a hedging instrument does not in itself mean that a qualitative assessment is inappropriate. It depends on the circumstances whether hedge ineffectiveness arising from that fact could have a magnitude that a qualitative assessment would not adequately capture.

AG290. Conversely, if the critical terms of the hedging instrument and the hedged item are not closely aligned, there is an increased level of uncertainty about the extent of offset. Consequently, the hedge effectiveness during the term of the hedging relationship is more difficult to predict. In such a situation it might only be possible for an entity to conclude on the basis of a quantitative assessment that an economic relationship exists between the hedged item and the hedging instrument (see paragraphs AG278–AG280). In some situations a quantitative assessment might also be needed to assess whether the hedge ratio used for designating the hedging relationship meets the hedge effectiveness requirements (see paragraphs AG283–AG285). An entity can use the same or different methods for those two different purposes.

AG291. If there are changes in circumstances that affect hedge effectiveness, an entity may have to change the method for assessing whether a hedging relationship meets the hedge effectiveness requirements in order to ensure that the relevant characteristics of the hedging relationship, including the sources of hedge ineffectiveness, are still captured.

AG292. An entity's risk management is the main source of information to perform the assessment of whether a hedging relationship meets the hedge effectiveness requirements. This means that the management information (or analysis) used for decision-making purposes can be used as a basis for assessing whether a hedging relationship meets the hedge effectiveness requirements.

AG293. An entity's documentation of the hedging relationship includes how it will assess the hedge effectiveness requirements, including the method or methods used. The documentation of the hedging relationship shall be updated for any changes to the methods (see paragraph AG291).

Accounting for Qualifying Hedging Relationships

AG294. An example of a fair value hedge is a hedge of exposure to changes in the fair value of a fixed-rate debt instrument arising from changes in interest rates. Such a hedge could be entered into by the issuer or by the holder.

AG295. The purpose of a cash flow hedge is to defer the gain or loss on the hedging instrument to a period or periods in which the hedged expected future cash flows affect surplus or deficit. An example of a cash flow hedge is the use of a swap to change floating rate debt (whether measured at amortized cost or fair value) to fixed-rate debt (i.e., a hedge of a future transaction in which the future cash flows being hedged are the future interest payments). Conversely, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value through surplus or deficit, is an example of an item that cannot be the hedged item in a cash flow hedge, because any gain or loss on the hedging instrument that would be deferred could not be appropriately reclassified to surplus or deficit during a period in which it would achieve offset. For the same reason, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value with changes in fair value presented in net assets/equity also cannot be the hedged item in a cash flow hedge.

AG296. A hedge of a firm commitment (for example, a hedge of the change in fuel price relating to an unrecognized contractual commitment by an electric utility to purchase fuel at a fixed price) is a hedge of an exposure to a change in fair value. Accordingly, such a hedge is a fair value hedge. However, in accordance with paragraph 133, a hedge of the foreign currency risk of a firm commitment could alternatively be accounted for as a cash flow hedge.

Measurement of Hedge Ineffectiveness

AG297. When measuring hedge ineffectiveness, an entity shall consider the time value of money. Consequently, the entity determines the value of the hedged item on a present value basis and therefore the change in the value of the hedged item also includes the effect of the time value of money.

AG298. To calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, an entity may use a derivative that would have terms that match the critical terms of the hedged item (this is commonly referred to as a 'hypothetical derivative'), and, for example for a hedge of a forecast transaction, would be calibrated using the hedged price (or rate) level. For example, if the hedge was for a two-sided risk at the current market level, the hypothetical derivative would represent a hypothetical forward contract that is calibrated to a value of nil at the time of designation of the hedging relationship. If the hedge was for example for a one-sided risk, the hypothetical derivative would represent the intrinsic value of a hypothetical option that at the time of designation of the hedging relationship is at the money if the hedged price level is the current market level, or out of the money if the hedged price level is above (or, for a hedge of a long position, below) the current market level. Using a hypothetical derivative is one possible way of calculating the change in the value of the hedged item. The hypothetical derivative replicates the hedged item and hence results in the same outcome as if that change in value was determined by a different approach. Hence, using a 'hypothetical derivative' is not a method in its own right but a mathematical expedient that can only be used to calculate the value of the hedged item. Consequently, a 'hypothetical derivative' cannot be used to include

features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item). An example is debt denominated in a foreign currency (irrespective of whether it is fixed-rate or variable-rate debt). When using a hypothetical derivative to calculate the change in the value of such debt or the present value of the cumulative change in its cash flows, the hypothetical derivative cannot simply impute a charge for exchanging different currencies even though actual derivatives under which different currencies are exchanged might include such a charge (for example, cross-currency interest rate swaps).

AG299. The change in the value of the hedged item determined using a hypothetical derivative may also be used for the purpose of assessing whether a hedging relationship meets the hedge effectiveness requirements.

Rebalancing the Hedging Relationship and Changes to the Hedge Ratio

AG300. Rebalancing refers to the adjustments made to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements. Changes to designated quantities of a hedged item or of a hedging instrument for a different purpose do not constitute rebalancing for the purpose of this Standard.

AG301. Rebalancing is accounted for as a continuation of the hedging relationship in accordance with paragraphs AG302–AG314. On rebalancing, the hedge ineffectiveness of the hedging relationship is determined and recognized immediately before adjusting the hedging relationship.

AG302. Adjusting the hedge ratio allows an entity to respond to changes in the relationship between the hedging instrument and the hedged item that arise from their underlyings or risk variables. For example, a hedging relationship in which the hedging instrument and the hedged item have different but related underlyings changes in response to a change in the relationship between those two underlyings (for example, different but related reference indices, rates or prices). Hence, rebalancing allows the continuation of a hedging relationship in situations in which the relationship between the hedging instrument and the hedged item changes in a way that can be compensated for by adjusting the hedge ratio.

AG303. For example, an entity hedges an exposure to Foreign Currency A using a currency derivative that references Foreign Currency B and Foreign Currencies A and B are pegged (i.e., their exchange rate is maintained within a band or at an exchange rate set by a central bank or other authority). If the exchange rate between Foreign Currency A and Foreign Currency B were changed (i.e., a new band or rate was set), rebalancing the hedging relationship to reflect the new exchange rate would ensure that the hedging relationship would continue to meet the hedge effectiveness requirement for the hedge ratio in the new circumstances. In contrast, if there was a default on the currency derivative, changing the hedge ratio could not ensure that the hedging relationship would continue to meet that hedge effectiveness requirement. Hence, rebalancing does not facilitate the continuation of a hedging relationship in situations in which the relationship between the hedging instrument and the hedged item changes in a way that cannot be compensated for by adjusting the hedge ratio.

AG304. Not every change in the extent of offset between the changes in the fair value of the hedging instrument and the hedged item's fair value or cash flows constitutes a change in the relationship between the hedging instrument and the hedged item. An entity analyzes the sources of hedge ineffectiveness that it expected to affect the hedging relationship during its term and evaluates whether changes in the extent of offset are:

(a) Fluctuations around the hedge ratio, which remains valid (i.e., continues to appropriately reflect the relationship between the hedging instrument and the hedged item); or

(b) An indication that the hedge ratio no longer appropriately reflects the relationship between the hedging instrument and the hedged item.

An entity performs this evaluation against the hedge effectiveness requirement for the hedge ratio, i.e., to ensure that the hedging relationship does not reflect an imbalance between the weightings of the hedged

item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognized or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. Hence, this evaluation requires judgment.

AG305. Fluctuation around a constant hedge ratio (and hence the related hedge ineffectiveness) cannot be reduced by adjusting the hedge ratio in response to each particular outcome. Hence, in such circumstances, the change in the extent of offset is a matter of measuring and recognizing hedge ineffectiveness but does not require rebalancing.

AG306. Conversely, if changes in the extent of offset indicate that the fluctuation is around a hedge ratio that is different from the hedge ratio that is currently used for that hedging relationship, or that there is a trend leading away from that hedge ratio, hedge ineffectiveness can be reduced by adjusting the hedge ratio, whereas retaining the hedge ratio would increasingly produce hedge ineffectiveness. Hence, in such circumstances, an entity must evaluate whether the hedging relationship reflects an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognized or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. If the hedge ratio is adjusted, it also affects the measurement and recognition of hedge ineffectiveness because, on rebalancing, the hedge ineffectiveness of the hedging relationship must be determined and recognized immediately before adjusting the hedging relationship in accordance with paragraph AG301.

AG307. Rebalancing means that, for hedge accounting purposes, after the start of a hedging relationship an entity adjusts the quantities of the hedging instrument or the hedged item in response to changes in circumstances that affect the hedge ratio of that hedging relationship. Typically, that adjustment should reflect adjustments in the quantities of the hedging instrument and the hedged item that it actually uses. However, an entity must adjust the hedge ratio that results from the quantities of the hedged item or the hedging instrument that it actually uses if:

(a) The hedge ratio that results from changes to the quantities of the hedging instrument or the hedged item that the entity actually uses would reflect an imbalance that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting; or

(b) An entity would retain quantities of the hedging instrument and the hedged item that it actually uses, resulting in a hedge ratio that, in new circumstances, would reflect an imbalance that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting (i.e., an entity must not create an imbalance by omitting to adjust the hedge ratio).

AG308. Rebalancing does not apply if the risk management objective for a hedging relationship has changed. Instead, hedge accounting for that hedging relationship shall be discontinued (despite that an entity might designate a new hedging relationship that involves the hedging instrument or hedged item of the previous hedging relationship as described in paragraph AG321).

AG309. If a hedging relationship is rebalanced, the adjustment to the hedge ratio can be effected in different ways:

(a) The weighting of the hedged item can be increased (which at the same time reduces the weighting of the hedging instrument) by:

(i) Increasing the volume of the hedged item; or

(ii) Decreasing the volume of the hedging instrument.

(b) The weighting of the hedging instrument can be increased (which at the same time reduces the weighting of the hedged item) by:

(i) Increasing the volume of the hedging instrument; or

(ii) Decreasing the volume of the hedged item.

Changes in volume refer to the quantities that are part of the hedging relationship. Hence, decreases in volumes do not necessarily mean that the items or transactions no longer exist, or are no longer expected to occur, but that they are not part of the hedging relationship. For example, decreasing the volume of the hedging instrument can result in the entity retaining a derivative, but only part of it might remain a hedging instrument of the hedging relationship. This could occur if the rebalancing could be effected only by reducing the volume of the hedging instrument in the hedging relationship, but with the entity retaining the volume that is no longer needed. In that case, the undesignated part of the derivative would be accounted for at fair value through surplus or deficit (unless it was designated as a hedging instrument in a different hedging relationship).

AG310. Adjusting the hedge ratio by increasing the volume of the hedged item does not affect how the changes in the fair value of the hedging instrument are measured. The measurement of the changes in the value of the hedged item related to the previously designated volume also remains unaffected. However, from the date of rebalancing, the changes in the value of the hedged item also include the change in the value of the additional volume of the hedged item. These changes are measured starting from, and by reference to, the date of rebalancing instead of the date on which the hedging relationship was designated. For example, if an entity originally hedged a volume of 100 tonnes of a commodity at a forward price of CU80 (the forward price at inception of the hedging relationship) and added a volume of 10 tonnes on rebalancing when the forward price was CU90, the hedged item after rebalancing would comprise two layers: 100 tonnes hedged at CU80 and 10 tonnes hedged at CU90.

AG311. Adjusting the hedge ratio by decreasing the volume of the hedging instrument does not affect how the changes in the value of the hedged item are measured. The measurement of the changes in the fair value of the hedging instrument related to the volume that continues to be designated also remains unaffected. However, from the date of rebalancing, the volume by which the hedging instrument was decreased is no longer part of the hedging relationship. For example, if an entity originally hedged the price risk of a commodity using a derivative volume of 100 tonnes as the hedging instrument and reduces that volume by 10 tonnes on rebalancing, a nominal amount of 90 tonnes of the hedging instrument volume would remain (see paragraph AG309 for the consequences for the derivative volume (i.e., the 10 tonnes) that is no longer a part of the hedging relationship).

AG312. Adjusting the hedge ratio by increasing the volume of the hedging instrument does not affect how the changes in the value of the hedged item are measured. The measurement of the changes in the fair value of the hedging instrument related to the previously designated volume also remains unaffected. However, from the date of rebalancing, the changes in the fair value of the hedging instrument also include the changes in the value of the additional volume of the hedging instrument. The changes are measured starting from, and by reference to, the date of rebalancing instead of the date on which the hedging relationship was designated. For example, if an entity originally hedged the price risk of a commodity using a derivative volume of 100 tonnes as the hedging instrument and added a volume of 10 tonnes on rebalancing, the hedging instrument after rebalancing would comprise a total derivative volume of 110 tonnes. The change in the fair value of the hedging instrument is the total change in the fair value of the derivatives that make up the total volume of 110 tonnes. These derivatives could (and probably would) have different critical terms, such as their forward rates, because they were entered into at different points in time (including the possibility of designating derivatives into hedging relationships after their initial recognition).

AG313. Adjusting the hedge ratio by decreasing the volume of the hedged item does not affect how the changes in the fair value of the hedging instrument are measured. The measurement of the changes in the value of the hedged item related to the volume that continues to be designated also remains unaffected. However, from

the date of rebalancing, the volume by which the hedged item was decreased is no longer part of the hedging relationship. For example, if an entity originally hedged a volume of 100 tonnes of a commodity at a forward price of CU80 and reduces that volume by 10 tonnes on rebalancing, the hedged item after rebalancing would be 90 tonnes hedged at CU80. The 10 tonnes of the hedged item that are no longer part of the hedging relationship would be accounted for in accordance with the requirements for the discontinuation of hedge accounting (see paragraphs 135–136 and AG315–AG321).

AG314. When rebalancing a hedging relationship, an entity shall update its analysis of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its (remaining) term (see paragraph AG276). The documentation of the hedging relationship shall be updated accordingly.

Discontinuation of Hedge Accounting

AG315. Discontinuation of hedge accounting applies prospectively from the date on which the qualifying criteria are no longer met.

AG316. An entity shall not de-designate and thereby discontinue a hedging relationship that:

(a) Still meets the risk management objective on the basis of which it qualified for hedge accounting (i.e., the entity still pursues that risk management objective); and

(b) Continues to meet all other qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable).

AG317. For the purposes of this Standard, an entity's risk management strategy is distinguished from its risk management objectives. The risk management strategy is established at the highest level at which an entity determines how it manages its risk. Risk management strategies typically identify the risks to which the entity is exposed and set out how the entity responds to them. A risk management strategy is typically in place for a longer period and may include some flexibility to react to changes in circumstances that occur while that strategy is in place (for example, different interest rate or commodity price levels that result in a different extent of hedging). This is normally set out in a general document that is cascaded down through an entity through policies containing more specific guidelines. In contrast, the risk management objective for a hedging relationship applies at the level of a particular hedging relationship. It relates to how the particular hedging instrument that has been designated is used to hedge the particular exposure that has been designated as the hedged item. Hence, a risk management strategy can involve many different hedging relationships whose risk management objectives relate to executing that overall risk management strategy. For example:

(a) An entity has a strategy of managing its interest rate exposure on debt funding that sets ranges for the overall entity for the mix between variable-rate and fixed-rate funding. The strategy is to maintain between 20 percent and 40 percent of the debt at fixed rates. The entity decides from time to time how to execute this strategy (i.e., where it positions itself within the 20 percent to 40 percent range for fixed-rate interest exposure) depending on the level of interest rates. If interest rates are low the entity fixes the interest for more debt than when interest rates are high. The entity's debt is CU100 of variable-rate debt of which CU30 is swapped into a fixed-rate exposure. The entity takes advantage of low interest rates to issue an additional CU50 of debt to finance a major investment, which the entity does by issuing a fixed-rate bond. In the light of the low interest rates, the entity decides to set its fixed interest-rate exposure to 40 percent of the total debt by reducing by CU20 the extent to which it previously hedged its variable-rate exposure, resulting in CU60 of fixed-rate exposure. In this situation the risk management strategy itself remains unchanged. However, in contrast the entity's execution of that strategy has changed and this means that, for CU20 of variable-rate exposure that was previously hedged, the risk management objective has changed (i.e., at the hedging relationship level). Consequently, in this situation hedge accounting must be discontinued for CU20 of the previously hedged variable-rate exposure. This could involve reducing the swap position by a CU20 nominal

amount but, depending on the circumstances, an entity might retain that swap volume and, for example, use it for hedging a different exposure or it might become part of a trading book. Conversely, if an entity instead swapped a part of its new fixed-rate debt into a variable-rate exposure, hedge accounting would have to be continued for its previously hedged variable-rate exposure.

(b) Some exposures result from positions that frequently change, for example, the interest rate risk of an open portfolio of debt instruments. The addition of new debt instruments and the derecognition of debt instruments continuously change that exposure (i.e., it is different from simply running off a position that matures). This is a dynamic process in which both the exposure and the hedging instruments used to manage it do not remain the same for long. Consequently, an entity with such an exposure frequently adjusts the hedging instruments used to manage the interest rate risk as the exposure changes. For example, debt instruments with 24 months' remaining maturity are designated as the hedged item for interest rate risk for 24 months. The same procedure is applied to other time buckets or maturity periods. After a short period of time, the entity discontinues all, some or a part of the previously designated hedging relationships for maturity periods and designates new hedging relationships for maturity periods on the basis of their size and the hedging instruments that exist at that time. The discontinuation of hedge accounting in this situation reflects that those hedging relationships are established in such a way that the entity looks at a new hedging instrument and a new hedged item instead of the hedging instrument and the hedged item that were designated previously. The risk management strategy remains the same, but there is no risk management objective that continues for those previously designated hedging relationships, which as such no longer exist. In such a situation, the discontinuation of hedge accounting applies to the extent to which the risk management objective has changed. This depends on the situation of an entity and could, for example, affect all or only some hedging relationships of a maturity period, or only part of a hedging relationship.

(c) An entity has a risk management strategy whereby it manages the foreign currency risk of forecast sales and the resulting receivables. Within that strategy the entity manages the foreign currency risk as a particular hedging relationship only up to the point of the recognition of the receivable. Thereafter, the entity no longer manages the foreign currency risk on the basis of that particular hedging relationship. Instead, it manages together the foreign currency risk from receivables, payables and derivatives (that do not relate to forecast transactions that are still pending) denominated in the same foreign currency. For accounting purposes, this works as a 'natural' hedge because the gains and losses from the foreign currency risk on all of those items are immediately recognized in surplus or deficit. Consequently, for accounting purposes, if the hedging relationship is designated for the period up to the payment date, it must be discontinued when the receivable is recognized, because the risk management objective of the original hedging relationship no longer applies. The foreign currency risk is now managed within the same strategy but on a different basis. Conversely, if an entity had a different risk management objective and managed the foreign currency risk as one continuous hedging relationship specifically for that forecast sales amount and the resulting receivable until the settlement date, hedge accounting would continue until that date.

AG318. The discontinuation of hedge accounting can affect:

(a) A hedging relationship in its entirety; or

(b) A part of a hedging relationship (which means that hedge accounting continues for the remainder of the hedging relationship).

AG319. A hedging relationship is discontinued in its entirety when, as a whole, it ceases to meet the qualifying criteria. For example:

(a) The hedging relationship no longer meets the risk management objective on the basis of which it qualified for hedge accounting (i.e., the entity no longer pursues that risk management objective);

(b) The hedging instrument or instruments have been sold or terminated (in relation to the entire volume that was part of the hedging relationship); or

(c) There is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk starts to dominate the value changes that result from that economic relationship.

AG320. A part of a hedging relationship is discontinued (and hedge accounting continues for its remainder) when only a part of the hedging relationship ceases to meet the qualifying criteria. For example:

(a) On rebalancing of the hedging relationship, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of the hedging relationship (see paragraph AG313); hence, hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship; or

(b) When the occurrence of some of the volume of the hedged item that is (or is a component of) a forecast transaction is no longer highly probable, hedge accounting is discontinued only for the volume of the hedged item whose occurrence is no longer highly probable. However, if an entity has a history of having designated hedges of forecast transactions and having subsequently determined that the forecast transactions are no longer expected to occur, the entity's ability to predict forecast transactions accurately is called into question when predicting similar forecast transactions. This affects the assessment of whether similar forecast transactions are highly probable (see paragraph 124) and hence whether they are eligible as hedged items.

AG321. An entity can designate a new hedging relationship that involves the hedging instrument or hedged item of a previous hedging relationship for which hedge accounting was (in part or in its entirety) discontinued. This does not constitute a continuation of a hedging relationship but is a restart. For example:

(a) A hedging instrument experiences such a severe credit deterioration that the entity replaces it with a new hedging instrument. This means that the original hedging relationship failed to achieve the risk management objective and is hence discontinued in its entirety. The new hedging instrument is designated as the hedge of the same exposure that was hedged previously and forms a new hedging relationship. Hence, the changes in the fair value or the cash flows of the hedged item are measured starting from, and by reference to, the date of designation of the new hedging relationship instead of the date on which the original hedging relationship was designated.

(b) A hedging relationship is discontinued before the end of its term. The hedging instrument in that hedging relationship can be designated as the hedging instrument in another hedging relationship (for example, when adjusting the hedge ratio on rebalancing by increasing the volume of the hedging instrument or when designating a whole new hedging relationship).

Accounting for the Time Value of Options

AG322. An option can be considered as being related to a time period because its time value represents a charge for providing protection for the option holder over a period of time. However, the relevant aspect for the purpose of assessing whether an option hedges a transaction or time-period related hedged item are the characteristics of that hedged item, including how and when it affects surplus or deficit. Hence, an entity shall assess the type of hedged item (see paragraph 144(a)) on the basis of the nature of the hedged item (regardless of whether the hedging relationship is a cash flow hedge or a fair value hedge):

(a) The time value of an option relates to a transaction related hedged item if the nature of the hedged item is a transaction for which the time value has the character of costs of that transaction. An example

is when the time value of an option relates to a hedged item that results in the recognition of an item whose initial measurement includes transaction costs (for example, an entity hedges a commodity purchase, whether it is a forecast transaction or a firm commitment, against the commodity price risk and includes the transaction costs in the initial measurement of the inventory). As a consequence of including the time value of the option in the initial measurement of the particular hedged item, the time value affects surplus or deficit at the same time as that hedged item. Similarly, an entity that hedges a sale of a commodity, whether it is a forecast transaction or a firm commitment, would include the time value of the option as part of the cost related to that sale (hence, the time value would be recognized in surplus or deficit in the same period as the revenue from the hedged sale).

(b) The time value of an option relates to a time-period related hedged item if the nature of the hedged item is such that the time value has the character of a cost for obtaining protection against a risk over a particular period of time (but the hedged item does not result in a transaction that involves the notion of a transaction cost in accordance with (a)). For example, if commodity inventory is hedged against a fair value decrease for six months using a commodity option with a corresponding life, the time value of the option would be allocated to surplus or deficit (i.e., amortized on a systematic and rational basis) over that six-month period. Another example is a hedge of a net investment in a foreign operation that is hedged for 18 months using a foreign-exchange option, which would result in allocating the time value of the option over that 18-month period.

AG323. The characteristics of the hedged item, including how and when the hedged item affects surplus or deficit, also affect the period over which the time value of an option that hedges a time-period related hedged item is amortized, which is consistent with the period over which the option's intrinsic value can affect surplus or deficit in accordance with hedge accounting. For example, if an interest rate option (a cap) is used to provide protection against increases in the interest expense on a floating rate bond, the time value of that cap is amortized to surplus or deficit over the same period over which any intrinsic value of the cap would affect surplus or deficit:

(a) If the cap hedges increases in interest rates for the first three years out of a total life of the floating rate bond of five years, the time value of that cap is amortized over the first three years; or

(b) If the cap is a forward start option that hedges increases in interest rates for years two and three out of a total life of the floating rate bond of five years, the time value of that cap is amortized during years two and three.

AG324. The accounting for the time value of options in accordance with paragraph 144 also applies to a combination of a purchased and a written option (one being a put option and one being a call option) that at the date of designation as a hedging instrument has a net nil time value (commonly referred to as a 'zero-cost collar'). In that case, an entity shall recognize any changes in time value in net assets/equity, even though the cumulative change in time value over the total period of the hedging relationship is nil. Hence, if the time value of the option relates to:

(a) A transaction related hedged item, the amount of time value at the end of the hedging relationship that adjusts the hedged item or that is reclassified to surplus or deficit (see paragraph 144(b)) would be nil.

(b) A time-period related hedged item, the amortization expense related to the time value is nil.

AG325. The accounting for the time value of options in accordance with paragraph 144 applies only to the extent that the time value relates to the hedged item (aligned time value). The time value of an option relates to the hedged item if the critical terms of the option (such as the nominal amount, life and underlying) are aligned with the hedged item. Hence, if the critical terms of the option and the hedged item are not fully aligned, an entity shall determine the aligned time value, i.e., how much of the time value included in the premium (actual time value) relates to the hedged item (and therefore should be treated in accordance with paragraph 144).

An entity determines the aligned time value using the valuation of the option that would have critical terms that perfectly match the hedged item.

AG326. If the actual time value and the aligned time value differ, an entity shall determine the amount that is accumulated in a separate component of net assets/equity in accordance with paragraph 144 as follows:

(a) If, at inception of the hedging relationship, the actual time value is higher than the aligned time value, the entity shall:

(i) Determine the amount that is accumulated in a separate component of net assets/equity on the basis of the aligned time value; and

(ii) Account for the differences in the fair value changes between the two time values in surplus or deficit.

(b) If, at inception of the hedging relationship, the actual time value is lower than the aligned time value, the entity shall determine the amount that is accumulated in a separate component of net assets/equity by reference to the lower of the cumulative change in fair value of:

(i) The actual time value; and

(ii) The aligned time value.

Any remainder of the change in fair value of the actual time value shall be recognized in surplus or deficit.

Accounting for the Forward Element of Forward Contracts and Foreign Currency Basis Spreads of Financial Instruments

AG327. A forward contract can be considered as being related to a time period because its forward element represents charges for a period of time (which is the tenor for which it is determined). However, the relevant aspect for the purpose of assessing whether a hedging instrument hedges a transaction or time-period related hedged item are the characteristics of that hedged item, including how and when it affects surplus or deficit. Hence, an entity shall assess the type of hedged item (see paragraphs 144(a) and 145) on the basis of the nature of the hedged item (regardless of whether the hedging relationship is a cash flow hedge or a fair value hedge):

(a) The forward element of a forward contract relates to a transaction related hedged item if the nature of the hedged item is a transaction for which the forward element has the character of costs of that transaction. An example is when the forward element relates to a hedged item that results in the recognition of an item whose initial measurement includes transaction costs (for example, an entity hedges an inventory purchase denominated in a foreign currency, whether it is a forecast transaction or a firm commitment, against foreign currency risk and includes the transaction costs in the initial measurement of the inventory). As a consequence of including the forward element in the initial measurement of the particular hedged item, the forward element affects surplus or deficit at the same time as that hedged item. Similarly, an entity that hedges a sale of a commodity denominated in a foreign currency against foreign currency risk, whether it is a forecast transaction or a firm commitment, would include the forward element as part of the cost that is related to that sale (hence, the forward element would be recognized in surplus or deficit in the same period as the revenue from the hedged sale).

(b) The forward element of a forward contract relates to a time-period related hedged item if the nature of the hedged item is such that the forward element has the character of a cost for obtaining protection against a risk over a particular period of time (but the hedged item does not result in a transaction that involves the notion of a transaction cost in accordance with (a)). For example, if commodity inventory is hedged against changes in fair value for six months using a commodity forward contract with a corresponding life, the forward element of the forward contract would be allocated to surplus or deficit

(i.e., amortized on a systematic and rational basis) over that six-month period. Another example is a hedge of a net investment in a foreign operation that is hedged for 18 months using a foreign-exchange forward contract, which would result in allocating the forward element of the forward contract over that 18-month period.

AG328. The characteristics of the hedged item, including how and when the hedged item affects surplus or deficit, also affect the period over which the forward element of a forward contract that hedges a time-period related hedged item is amortized, which is over the period to which the forward element relates. For example, if a forward contract hedges the exposure to variability in three-month interest rates for a three-month period that starts in six months' time, the forward element is amortized during the period that spans months seven to nine.

AG329. The accounting for the forward element of a forward contract in accordance with paragraph 145 also applies if, at the date on which the forward contract is designated as a hedging instrument, the forward element is nil. In that case, an entity shall recognize any fair value changes attributable to the forward element in net assets/equity, even though the cumulative fair value change attributable to the forward element over the total period of the hedging relationship is nil. Hence, if the forward element of a forward contract relates to:

(a) A transaction related hedged item, the amount in respect of the forward element at the end of the hedging relationship that adjusts the hedged item or that is reclassified to surplus or deficit (see paragraphs 144(b) and 145) would be nil.

(b) A time-period related hedged item, the amortization amount related to the forward element is nil.

AG330. The accounting for the forward element of forward contracts in accordance with paragraph 145 applies only to the extent that the forward element relates to the hedged item (aligned forward element). The forward element of a forward contract relates to the hedged item if the critical terms of the forward contract (such as the nominal amount, life and underlying) are aligned with the hedged item. Hence, if the critical terms of the forward contract and the hedged item are not fully aligned, an entity shall determine the aligned forward element, i.e., how much of the forward element included in the forward contract (actual forward element) relates to the hedged item (and therefore should be treated in accordance with paragraph 145). An entity determines the aligned forward element using the valuation of the forward contract that would have critical terms that perfectly match the hedged item.

AG331. If the actual forward element and the aligned forward element differ, an entity shall determine the amount that is accumulated in a separate component of net assets/equity in accordance with paragraph 145 as follows:

(a) If, at inception of the hedging relationship, the absolute amount of the actual forward element is higher than that of the aligned forward element the entity shall:

(i) Determine the amount that is accumulated in a separate component of net assets/equity on the basis of the aligned forward element; and

(ii) Account for the differences in the fair value changes between the two forward elements in surplus or deficit.

(b) If, at inception of the hedging relationship, the absolute amount of the actual forward element is lower than that of the aligned forward element, the entity shall determine the amount that is accumulated in a separate component of net assets/equity by reference to the lower of the cumulative change in fair value of:

(i) The absolute amount of the actual forward element; and

(ii) The absolute amount of the aligned forward element.

Any remainder of the change in fair value of the actual forward element shall be recognized in surplus or deficit.

AG332. When an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument (see paragraph 119(b)), the application guidance in paragraphs AG327–AG331 applies to the foreign currency basis spread in the same manner as it is applied to the forward element of a forward contract.

Hedge of a Group of Items

Hedge of a Net Position

Eligibility for Hedge Accounting and Designation of a Net Position

AG333. A net position is eligible for hedge accounting only if an entity hedges on a net basis for risk management purposes. Whether an entity hedges in this way is a matter of fact (not merely of assertion or documentation). Hence, an entity cannot apply hedge accounting on a net basis solely to achieve a particular accounting outcome if that would not reflect its risk management approach. Net position hedging must form part of an established risk management strategy. Normally this would be approved by key management personnel as defined in IPSAS 20.

AG334. For example, Entity A, whose functional currency is its local currency, has a firm commitment to pay FC150,000 for advertising expenses in nine months' time and a firm commitment to sell finished goods for FC150,000 in 15 months' time. Entity A enters into a foreign currency derivative that settles in nine months' time under which it receives FC100 and pays CU70. Entity A has no other exposures to FC. Entity A does not manage foreign currency risk on a net basis. Hence, Entity A cannot apply hedge accounting for a hedging relationship between the foreign currency derivative and a net position of FC100 (consisting of FC150,000 of the firm purchase commitment—i.e., advertising services—and FC149,900 (of the FC150,000) of the firm sale commitment) for a nine-month period.

AG335. If Entity A did manage foreign currency risk on a net basis and did not enter into the foreign currency derivative (because it increases its foreign currency risk exposure instead of reducing it), then the entity would be in a natural hedged position for nine months. Normally, this hedged position would not be reflected in the financial statements because the transactions are recognized in different reporting periods in the future. The nil net position would be eligible for hedge accounting only if the conditions in paragraph 151 are met.

AG336. When a group of items that constitute a net position is designated as a hedged item, an entity shall designate the overall group of items that includes the items that can make up the net position. An entity is not permitted to designate a non-specific abstract amount of a net position. For example, an entity has a group of firm sale commitments in nine months' time for FC100 and a group of firm purchase commitments in 18 months' time for FC120. The entity cannot designate an abstract amount of a net position up to FC20. Instead, it must designate a gross amount of purchases and a gross amount of sales that together give rise to the hedged net position. An entity shall designate gross positions that give rise to the net position so that the entity is able to comply with the requirements for the accounting for qualifying hedging relationships.

Application of the Hedge Effectiveness Requirements to a Hedge of a Net Position

AG337. When an entity determines whether the hedge effectiveness requirements of paragraph 129(c) are met when it hedges a net position, it shall consider the changes in the value of the items in the net position that have a similar effect as the hedging instrument in conjunction with the fair value change on the hedging instrument. For example, an entity has a group of firm sale commitments in nine months' time for FC100 and a group of firm purchase commitments in 18 months' time for FC120. It hedges the foreign currency risk of the net

position of FC20 using a forward exchange contract for FC20. When determining whether the hedge effectiveness requirements of paragraph 129(c)are met, the entity shall consider the relationship between:

(a) The fair value change on the forward exchange contract together with the foreign currency risk related changes in the value of the firm sale commitments; and

(b) The foreign currency risk related changes in the value of the firm purchase commitments.

AG338. Similarly, if in the example in paragraph AG337 the entity had a nil net position it would consider the relationship between the foreign currency risk related changes in the value of the firm sale commitments and the foreign currency risk related changes in the value of the firm purchase commitments when determining whether the hedge effectiveness requirements of paragraph 129(c) are met.

Cash Flow Hedges that Constitute a Net Position

AG339. When an entity hedges a group of items with offsetting risk positions (i.e., a net position), the eligibility for hedge accounting depends on the type of hedge. If the hedge is a fair value hedge, then the net position may be eligible as a hedged item. If, however, the hedge is a cash flow hedge, then the net position can only be eligible as a hedged item if it is a hedge of foreign currency risk and the designation of that net position specifies the reporting period in which the forecast transactions are expected to affect surplus or deficit and also specifies their nature and volume.

AG340. For example, an entity has a net position that consists of a bottom layer of FC100 of sales and a bottom layer of FC150 of purchases. Both sales and purchases are denominated in the same foreign currency. In order to sufficiently specify the designation of the hedged net position, the entity specifies in the original documentation of the hedging relationship that sales can be of Product A or Product B and purchases can be of Machinery Type A, Machinery Type B and Raw Material A. The entity also specifies the volumes of the transactions by each nature. The entity documents that the bottom layer of sales (FC100) is made up of a forecast sales volume of the first FC70 of Product A and the first FC30 of Product B. If those sales volumes are expected to affect surplus or deficit in different reporting periods, the entity would include that in the documentation, for example, the first FC70 from sales of Product A that are expected to affect surplus or deficit in the first reporting period and the first FC30 from sales of Product B that are expected to affect surplus or deficit in the second reporting period. The entity also documents that the bottom layer of the purchases (FC150) is made up of purchases of the first FC60 of Machinery Type A, the first FC40 of Machinery Type B and the first FC50 of Raw Material A. If those purchase volumes are expected to affect surplus or deficit in different reporting periods, the entity would include in the documentation a disaggregation of the purchase volumes by the reporting periods in which they are expected to affect surplus or deficit (similarly to how it documents the sales volumes). For example, the forecast transaction would be specified as:

(a) The first FC60 of purchases of Machinery Type A that are expected to affect surplus or deficit from the third reporting period over the next ten reporting periods;

(b) The first FC40 of purchases of Machinery Type B that are expected to affect surplus or deficit from the fourth reporting period over the next 20 reporting periods; and

(c) The first FC50 of purchases of Raw Material A that are expected to be received in the third reporting period and sold, i.e., affect surplus or deficit, in that and the next reporting period.

Specifying the nature of the forecast transaction volumes would include aspects such as the depreciation pattern for items of property, plant and equipment of the same kind, if the nature of those items is such that the depreciation pattern could vary depending on how the entity uses those items. For example, if the entity uses items of Machinery Type A in two different production processes that result in straight-line depreciation over ten reporting periods and the units of production method respectively, its documentation of the forecast

purchase volume for Machinery Type A would disaggregate that volume by which of those depreciation patterns will apply.

AG341. For a cash flow hedge of a net position, the amounts determined in accordance with paragraph 140 shall include the changes in the value of the items in the net position that have a similar effect as the hedging instrument in conjunction with the fair value change on the hedging instrument. However, the changes in the value of the items in the net position that have a similar effect as the hedging instrument are recognized only once the transactions that they relate to are recognized, such as when a forecast sale is recognized as revenue. For example, an entity has a group of highly probable forecast sales in nine months' time for FC100 and a group of highly probable forecast purchases in 18 months' time for FC120. It hedges the foreign currency risk of the net position of FC20 using a forward exchange contract for FC20. When determining the amounts that are recognized in the cash flow hedge reserve in accordance with paragraph 140(a)–140(b), the entity compares:

(a) The fair value change on the forward exchange contract together with the foreign currency risk related changes in the value of the highly probable forecast sales; with

(b) The foreign currency risk related changes in the value of the highly probable forecast purchases.

However, the entity recognizes only amounts related to the forward exchange contract until the highly probable forecast sales transactions are recognized in the financial statements, at which time the gains or losses on those forecast transactions are recognized (i.e., the change in the value attributable to the change in the foreign exchange rate between the designation of the hedging relationship and the recognition of revenue).

AG342. Similarly, if in the example the entity had a nil net position it would compare the foreign currency risk related changes in the value of the highly probable forecast sales with the foreign currency risk related changes in the value of the highly probable forecast purchases. However, those amounts are recognized only once the related forecast transactions are recognized in the financial statements.

Layers of Groups of Items Designated as the Hedged Item

AG343. For the same reasons noted in paragraph AG268, designating layer components of groups of existing items requires the specific identification of the nominal amount of the group of items from which the hedged layer component is defined.

AG344. A hedging relationship can include layers from several different groups of items. For example, in a hedge of a net position of a group of assets and a group of liabilities, the hedging relationship can comprise, in combination, a layer component of the group of assets and a layer component of the group of liabilities.

Presentation of Hedging Instrument Gains or Losses

AG345. If items are hedged together as a group in a cash flow hedge, they might affect different line items in the statement of surplus or deficit and net assets/equity. The presentation of hedging gains or losses in that statement depends on the group of items.

AG346. If the group of items does not have any offsetting risk positions (for example, a group of foreign currency expenses that affect different line items in the statement of financial performance and the statement of changes in net assets/equity that are hedged for foreign currency risk) then the reclassified hedging instrument gains or losses shall be apportioned to the line items affected by the hedged items. This apportionment shall be done on a systematic and rational basis and shall not result in the grossing up of the net gains or losses arising from a single hedging instrument.

AG347. If the group of items does have offsetting risk positions (for example, a group of sales and expenses denominated in a foreign currency hedged together for foreign currency risk) then an entity shall present the

hedging gains or losses in a separate line item in the statement of financial performance and the statement of changes in net assets/equity. Consider, for example, a hedge of the foreign currency risk of a net position of foreign currency sales of FC100 and foreign currency expenses of FC80 using a forward exchange contract for FC20. The gain or loss on the forward exchange contract that is reclassified from the cash flow hedge reserve to surplus or deficit (when the net position affects surplus or deficit) shall be presented in a separate line item from the hedged sales and expenses. Moreover, if the sales occur in an earlier period than the expenses, the sales revenue is still measured at the spot exchange rate in accordance with IPSAS 4. The related hedging gain or loss is presented in a separate line item, so that surplus or deficit reflects the effect of hedging the net position, with a corresponding adjustment to the cash flow hedge reserve. When the hedged expenses affect surplus or deficit in a later period, the hedging gain or loss previously recognized in the cash flow hedge reserve on the sales is reclassified to surplus or deficit and presented as a separate line item from those that include the hedged expenses, which are measured at the spot exchange rate in accordance with IPSAS 4.

AG348. For some types of fair value hedges, the objective of the hedge is not primarily to offset the fair value change of the hedged item but instead to transform the cash flows of the hedged item. For example, an entity hedges the fair value interest rate risk of a fixed-rate debt instrument using an interest rate swap. The entity's hedge objective is to transform the fixed-interest cash flows into floating interest cash flows. This objective is reflected in the accounting for the hedging relationship by accruing the net interest accrual on the interest rate swap in surplus or deficit. In the case of a hedge of a net position (for example, a net position of a fixed-rate asset and a fixed-rate liability), this net interest accrual must be presented in a separate line item in the statement of financial performance and the statement of changes in net assets/equity. This is to avoid the grossing up of a single instrument's net gains or losses into offsetting gross amounts and recognizing them in different line items (for example, this avoids grossing up a net interest receipt on a single interest rate swap into gross interest revenue and gross interest expense).

Effective Date and Transition

Transition

Financial Assets Held for Trading

AG349. At the date of initial application of this Standard, an entity must determine whether the objective of the entity's management model for managing any of its financial assets meets the condition in paragraph 40(a) or the condition in paragraph 41(a) or if a financial asset is eligible for the election in paragraph 106. For that purpose, an entity shall determine whether financial assets meet the definition of held for trading as if the entity had purchased the assets at the date of initial application.

Impairment

AG350. On transition, an entity should seek to approximate the credit risk on initial recognition by considering all reasonable and supportable information that is available without undue cost or effort. An entity is not required to undertake an exhaustive search for information when determining, at the date of transition, whether there have been significant increases in credit risk since initial recognition. If an entity is unable to make this determination without undue cost or effort paragraph 178 applies.

AG351. In order to determine the loss allowance on financial instruments initially recognized (or loan commitments or financial guarantee contracts to which the entity became a party to the contract) prior to the date of initial application, both on transition and until the derecognition of those items an entity shall consider information that is relevant in determining or approximating the credit risk at initial recognition. In order to determine or approximate the initial credit risk, an entity may consider internal and external information, including portfolio information, in accordance with paragraphs AG165–AG170.

AG352. An entity with little historical information may use information from internal reports and statistics (that may have been generated when deciding whether to launch a new product), information about similar products or peer group experience for comparable financial instruments, if relevant.

Appendix B – Hedges of a Net Investment in a Foreign Operation

This Appendix is an integral part of IPSAS 41.

Introduction

B1. Many reporting entities have investments in foreign operations (as defined in IPSAS 4, paragraph 10). Such foreign operations may be controlled entities, associates, joint ventures or branches. IPSAS 4 requires an entity to determine the functional currency of each of its foreign operations as the currency of the primary economic environment of that operation. When translating the results and financial position of a foreign operation into a presentation currency, the entity is required to recognize foreign exchange differences directly in net assets/equity until it disposes of the foreign operation.

B2. Hedge accounting of the foreign currency risk arising from a net investment in a foreign operation will apply only when the net assets of that foreign operation are included in the financial statements. This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint ventures are accounted for using the equity method and financial statements that include a branch or joint operations as defined in IPSAS 37. The item being hedged with respect to the foreign currency risk arising from the net investment in a foreign operation may be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation.

B3. IPSAS 41 requires the designation of an eligible hedged item and eligible hedging instruments in a hedge accounting relationship. If there is a designated hedging relationship, in the case of a net investment hedge, the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment is recognized directly in net assets/equity and is included with the foreign exchange differences arising on translation of the results and financial position of the foreign operation.

B4. This Appendix applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IPSAS 41. It should not be applied by analogy to other types of hedge accounting. This Appendix refers to such an entity as a controlling entity and to the financial statements in which the net assets of foreign operations are included as consolidated financial statements. All references to a controlling entity apply equally to an entity that has a net investment in a foreign operation that is a joint venture, an associate or a branch.

B5. This Appendix provides guidance on:

(a) Identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation, given that an entity with many foreign operations may be exposed to a number of foreign currency risks. It specifically addresses:

(i) Whether the controlling entity may designate as a hedged risk only the foreign exchange differences arising from a difference between the functional currencies of the controlling entity and its foreign operation, or whether it may also designate as the hedged risk the foreign exchange differences arising from the difference between the presentation currency of the controlling entity’s consolidated financial statements and the functional currency of the foreign operation; and

(ii) If the controlling entity holds the foreign operation indirectly, whether the hedged risk may include only the foreign exchange differences arising from differences in functional currencies between the foreign operation and its immediate controlling entity, or whether the hedged risk may also include any foreign exchange differences between the functional currency of the foreign

operation and any intermediate or ultimate controlling entity (i.e., whether the fact that the net investment in the foreign operation is held through an intermediate controlling entity affects the economic risk to the ultimate controlling entity).

(b) Where in an economic entity the hedging instrument can be held. It specifically addresses:

(i) IPSAS 41 allows an entity to designate either a derivative or a non-derivative financial instrument (or a combination of derivative and non-derivative financial instruments) as hedging instruments for foreign currency risk. This Appendix addresses whether the nature of the hedging instrument (derivative or non-derivative) or the method of consolidation affects the assessment of hedge effectiveness.

(ii) This Appendix also addresses where, within an economic entity, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting i.e., whether a qualifying hedge accounting relationship can be established only if the entity hedging its net investment is a party to the hedging instrument or whether any entity within the economic entity, regardless of its functional currency, can hold the hedging instrument.

(c) How an entity should determine what amount of the gain or loss recognized in net assets/equity should be recognized directly in surplus or deficit for both the hedging instrument and the hedged item as IPSAS 4 and IPSAS 41 require cumulative amounts recognized directly in net assets/equity relating to both the foreign exchange differences arising on translation of the results and financial position of the foreign operation and the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment to be recognized directly when the controlling entity disposes of the foreign operation. It specifically addresses:

(i) When a foreign operation that was hedged is disposed of, what amounts from the controlling entity's foreign currency translation reserve in respect of the hedging instrument and of that foreign operation should be recognized in surplus or deficit in the controlling entity's consolidated financial statements; and

(ii) Whether the method of consolidation affects the determination of the amounts to be recognized in surplus or deficit.

Application of IPSAS 41 to Hedges of a Net Investment in a Foreign Operation

Nature of the Hedged Risk and Amount of the Hedged Item for which a Hedging Relationship may be Designated

B6. Hedge accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the controlling entity's functional currency.

B7. In a hedge of the foreign currency risks arising from a net investment in a foreign operation, the hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation in the consolidated financial statements of the controlling entity. The carrying amount of the net assets of a foreign operation that may be designated as the hedged item in the consolidated financial statements of a controlling entity depends on whether any lower level controlling entity of the foreign operation has applied hedge accounting for all or part of the net assets of that foreign operation and that accounting has been maintained in the controlling entity's consolidated financial statements.

B8. The hedged risk may be designated as the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of any controlling entity (the immediate, intermediate or ultimate controlling entity) of that foreign operation. The fact that the net investment is held through an intermediate controlling entity does not affect the nature of the economic risk arising from the foreign currency exposure to the ultimate controlling entity.

B9. An exposure to foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once in the consolidated financial statements. Therefore, if the same net assets of a foreign operation are hedged by more than one controlling entity within the economic entity (e.g., both a direct and an indirect controlling entity) for the same risk, only one hedging relationship will qualify for hedge accounting in the consolidated financial statements of the ultimate controlling entity. A hedging relationship designated by one controlling entity in its consolidated financial statements need not be maintained by another higher level controlling entity. However, if it is not maintained by the higher level controlling entity, the hedge accounting applied by the lower level controlling entity must be reversed before the higher level controlling entity's hedge accounting is recognized.

Where the Hedging Instrument can be Held

B10. A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the economic entity, as long as the designation, documentation and effectiveness requirements of IPSAS 41 paragraph 129 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the economic entity should be clearly documented because of the possibility of different designations at different levels of the economic entity.

B11. For the purpose of assessing effectiveness, the change in value of the hedging instrument in respect of foreign exchange risk is computed by reference to the functional currency of the controlling entity against whose functional currency the hedged risk is measured, in accordance with the hedge accounting documentation. Depending on where the hedging instrument is held, in the absence of hedge accounting the total change in value might be recognized in surplus or deficit, directly in net assets/equity, or both. However, the assessment of effectiveness is not affected by whether the change in value of the hedging instrument is recognized in surplus or deficit or directly in net assets/equity. As part of the application of hedge accounting, the total effective portion of the change is included directly in net assets/equity. The assessment of effectiveness is not affected by whether the hedging instrument is a derivative or a non-derivative instrument or by the method of consolidation.

Disposal of a Hedged Foreign Operation

B12. When a foreign operation that was hedged is disposed of, the amount reclassified to surplus or deficit from the foreign currency translation reserve in the consolidated financial statements of the controlling entity in respect of the hedging instrument is the amount that IPSAS 41 paragraph 143 requires to be identified. That amount is the cumulative gain or loss on the hedging instrument that was determined to be an effective hedge.

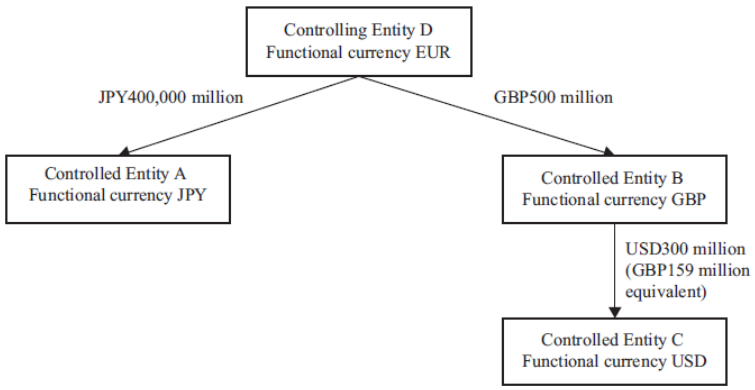
B13. The amount recognized in surplus or deficit upon transfer from the foreign currency translation reserve in the consolidated financial statements of a controlling entity in respect of the net investment in that foreign operation in accordance with IPSAS 4 paragraph 57 is the amount included in that controlling entity's foreign currency translation reserve in respect of that foreign operation. In the ultimate controlling entity's consolidated financial statements, the aggregate net amount recognized in the foreign currency translation reserve in respect of all foreign operations is not affected by the consolidation method. However, whether the ultimate controlling entity uses the direct or the step-by-step method of consolidation, may affect the amount included in its foreign currency translation reserve in respect of an individual foreign operation.

B14. The direct method is the method of consolidation in which the financial statements of the foreign operation are translated directly into the functional currency of the ultimate controlling entity. The step-by-step method is the method of consolidation in which the financial statements of the foreign operation are first translated into the functional currency of any intermediate controlling entity(ies) and then translated into the functional currency of the ultimate controlling entity (or the presentation currency if different).

B15. The use of the step-by-step method of consolidation may result in a different amount being recognized in surplus or deficit from that used to determine hedge effectiveness. This difference may be eliminated by determining the amount relating to that foreign operation that would have arisen if the direct method of consolidation had been used. Making this adjustment is not required by IPSAS 4. However, it is an accounting policy choice that should be followed consistently for all net investments.

Example

B16. The following example illustrates the application of the preceding paragraphs using the entity structure illustrated below. In all cases the hedging relationships described would be tested for effectiveness in accordance with IPSAS 41, although this testing is not discussed. Controlling Entity D, being the ultimate controlling entity, presents its consolidated financial statements in its functional currency of euro (EUR). Each of the controlled entities i.e., Controlled Entity A, Controlled Entity B and Controlled Entity C, is wholly owned. Controlling Entity D's £500 million net investment in Controlled Entity B (functional currency pounds sterling (GBP)) includes the £159 million equivalent of Controlled Entity B's US$300 million net investment in Controlled Entity C (functional currency US dollars (USD)). In other words, Controlled Entity B's net assets other than its investment in Controlled Entity C are £341 million.



Nature of Hedged Risk for which a Hedging Relationship may be Designated (paragraphs B6–B9)

B17. Controlling Entity D can hedge its net investment in each of Controlled Entities A, B and C for the foreign exchange risk between their respective functional currencies (Japanese yen (JPY), pounds sterling and US dollars) and euro. In addition, Controlling Entity D can hedge the USD/GBP foreign exchange risk between the functional currencies of Controlled Entity B and Controlled Entity C. In its consolidated financial statements, Controlled Entity B can hedge its net investment in Controlled Entity C for the foreign exchange risk between their functional currencies of US dollars and pounds sterling. In the following examples the designated risk is the spot foreign exchange risk because the hedging instruments are not derivatives. If the hedging instruments were forward contracts, Controlling Entity D could designate the forward foreign exchange risk.

Amount of Hedged Item for which a Hedging Relationship may be Designated (paragraphs B6–B9)

B18. Controlling Entity D wishes to hedge the foreign exchange risk from its net investment in Controlled Entity C. Assume that Controlled Entity A has an external borrowing of US$300 million. The net assets of Controlled Entity A at the start of the reporting period are ¥400,000 million including the proceeds of the external borrowing of US$300 million.

B19. The hedged item can be an amount of net assets equal to or less than the carrying amount of Controlling Entity D's net investment in Controlled Entity C (US$300 million) in its consolidated financial statements. In

its consolidated financial statements Controlling Entity D can designate the US$300 million external borrowing in Controlled Entity A as a hedge of the EUR/USD spot foreign exchange risk associated with its net investment in the US$300 million net assets of Controlled Entity C. In this case, both the EUR/USD foreign exchange difference on the US$300 million external borrowing in Controlled Entity A and the EUR/USD foreign exchange difference on the US$300 million net investment in Controlled Entity C are included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements after the application of hedge accounting.

B20. In the absence of hedge accounting, the total USD/EUR foreign exchange difference on the US$300 million external borrowing in Controlled Entity A would be recognized in Controlling Entity D's consolidated financial statements as follows:

- USD/JPY spot foreign exchange rate change, translated to euro, in surplus or deficit; and
- JPY/EUR spot foreign exchange rate change directly in net assets/equity.

Instead of the designation in paragraph B19, in its consolidated financial statements Controlling Entity D can designate the US$300 million external borrowing in Controlled Entity A as a hedge of the GBP/USD spot foreign exchange risk between Controlled Entity C and Controlled Entity B. In this case, the total USD/EUR foreign exchange difference on the US$300 million external borrowing in Entity A would instead be recognized in Controlled Entity D's consolidated financial statements as follows:

- The GBP/USD spot foreign exchange rate change in the foreign currency translation reserve relating to Controlled Entity C;
- GBP/JPY spot foreign exchange rate change, translated to euro, in surplus or deficit; and
- JPY/EUR spot foreign exchange rate change directly in net assets/equity.

B21. Controlling Entity D cannot designate the US$300 million external borrowing in Controlled Entity A as a hedge of both the EUR/USD spot foreign exchange risk and the GBP/USD spot foreign exchange risk in its consolidated financial statements. A single hedging instrument can hedge the same designated risk only once. Controlled Entity B cannot apply hedge accounting in its consolidated financial statements because the hedging instrument is held outside the economic entity comprising Controlled Entity B and Controlled Entity C.

Where in an Economic Entity can the Hedging Instrument be Held (paragraphs B10 and B11)?

B22. As noted in paragraph B20, the total change in value in respect of foreign exchange risk of the US$300 million external borrowing in Controlled Entity A would be recorded in both surplus or deficit (USD/JPY spot risk) and directly in net assets/equity (EUR/JPY spot risk) in Controlling Entity D's consolidated financial statements in the absence of hedge accounting. Both amounts are included for the purpose of assessing the effectiveness of the hedge designated in paragraph B19 because the change in value of both the hedging instrument and the hedged item are computed by reference to the euro functional currency of Controlling Entity D against the US dollar functional currency of Controlled Entity C, in accordance with the hedge documentation. The method of consolidation (i.e., direct method or step-by-step method) does not affect the assessment of the effectiveness of the hedge.

Amounts Recognized in Surplus or Deficit on Disposal of a Foreign Operation (paragraphs B12 and B13)

B23. When Controlled Entity C is disposed of, the amounts are recognized in surplus or deficit in Controlling Entity D's consolidated financial statements upon transfer from its foreign currency translation reserve (FCTR) are:

(a) In respect of the US$300 million external borrowing of Controlled Entity A, the amount that IPSAS 41 requires to be identified, i.e., the total change in value in respect of foreign exchange risk that was recognized directly in net assets/equity as the effective portion of the hedge; and

(b) In respect of the US$300 million net investment in Controlled Entity C, the amount determined by the entity's consolidation method. If Controlling Entity D uses the direct method, its FCTR in respect of Controlled Entity C will be determined directly by the EUR/USD foreign exchange rate. If Controlling Entity D uses the step-by-step method, its FCTR in respect of Controlled Entity C will be determined by the FCTR recognized by Controlled Entity B reflecting the GBP/USD foreign exchange rate, translated to Controlling Entity D's functional currency using the EUR/GBP foreign exchange rate. Controlling Entity D's use of the step-by-step method of consolidation in prior periods does not require it to or preclude it from determining the amount of FCTR to be recognized in surplus or deficit when it disposes of Controlled Entity C to be the amount that it would have recognized if it had always used the direct method, depending on its accounting policy.

Hedging More Than One Foreign Operation (paragraphs B7, B9, and B11)

B24. The following examples illustrate that in the consolidated financial statements of Controlling Entity D, the risk that can be hedged is always the risk between its functional currency (euro) and the functional currencies of Controlled Entities B and C. No matter how the hedges are designated, the maximum amounts that can be effective hedges to be included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements when both foreign operations are hedged are US$300 million for EUR/USD risk and £341 million for EUR/GBP risk. Other changes in value due to changes in foreign exchange rates are included in Controlling Entity D's consolidated surplus or deficit. Of course, it would be possible for Controlling Entity D to designate US$300 million only for changes in the USD/GBP spot foreign exchange rate or £500 million only for changes in the GBP/EUR spot foreign exchange rate.

Holds Both USD and GBP Hedging Instruments

B25. Controlling Entity D may wish to hedge the foreign exchange risk in relation to its net investment in Controlled Entity B as well as that in relation to Controlled Entity C. Assume that Controlling Entity D holds suitable hedging instruments denominated in US dollars and pounds sterling that it could designate as hedges of its net investments in Controlled Entity B and Controlled Entity C. The designations Controlling Entity D can make in its consolidated financial statements include, but are not limited to, the following:

(a) US$300 million hedging instrument designated as a hedge of the US$300 million of net investment in Controlled Entity C with the risk being the spot foreign exchange exposure (EUR/USD) between Controlling Entity D and Controlled Entity C and up to £341 million hedging instrument designated as a hedge of £341 million of the net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (EUR/GBP) between Controlling Entity D and Controlled Entity B.

(b) US$300 million hedging instrument designated as a hedge of the US$300 million of net investment in Controlled Entity C with the risk being the spot foreign exchange exposure (GBP/USD) between Controlled Entity B and Controlled Entity C and up to £500 million hedging instrument designated as a hedge of £500 million of the net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (EUR/GBP) between Controlling Entity D and Controlled Entity B.

B26. The EUR/USD risk from Controlling Entity D's net investment in Controlled Entity C is a different risk from the EUR/GBP risk from Controlling Entity D's net investment in Controlled Entity B. However, in the case described in paragraph B25(a), by its designation of the USD hedging instrument it holds, Controlling Entity D has already fully hedged the EUR/USD risk from its net investment in Controlled Entity C. If Controlling Entity D also designated a GBP instrument it holds as a hedge of its £500 million net investment in Controlled Entity B, £159 million of that net investment, representing the GBP equivalent of its USD net investment in

Controlled Entity C, would be hedged twice for GBP/EUR risk in Controlling Entity D's consolidated financial statements.

B27. In the case described in paragraph B25(b), if Controlling Entity D designates the hedged risk as the spot foreign exchange exposure (GBP/USD) between Controlled Entity B and Controlled Entity C, only the GBP/USD part of the change in the value of its US$300 million hedging instrument is included in Controlling Entity D's foreign currency translation reserve relating to Controlled Entity C. The remainder of the change (equivalent to the GBP/EUR change on £159 million) is included in Controlling Entity D's consolidated surplus or deficit, as in paragraph B20. Because the designation of the USD/GBP risk between Controlled entities B and C does not include the GBP/EUR risk, Controlling Entity D is also able to designate up to £500 million of its net investment in Controlled Entity B with the risk being the spot foreign exchange exposure (GBP/EUR) between Controlling Entity D and Controlled Entity B.

Entity B Holds the USD Hedging Instrument

B28. Assume that Controlled Entity B holds US$300 million of external debt, the proceeds of which were transferred to Controlling Entity D by an inter-entity loan denominated in pounds sterling. Because both its assets and liabilities increased by £159 million, Controlled Entity B's net assets are unchanged. Controlled Entity B could designate the external debt as a hedge of the GBP/USD risk of its net investment in Controlled Entity C in its consolidated financial statements. Controlling Entity D could maintain Controlled Entity B's designation of that hedging instrument as a hedge of its US$300 million net investment in Controlled Entity C for the GBP/USD risk (see paragraph B9) and Controlling Entity D could designate the GBP hedging instrument it holds as a hedge of its entire £500 million net investment in Controlled Entity B. The first hedge, designated by Controlled Entity B, would be assessed by reference to Controlled Entity B's functional currency (pounds sterling) and the second hedge, designated by Controlling Entity D, would be assessed by reference to Controlling Entity D's functional currency (euro). In this case, only the GBP/USD risk from Controlling Entity D's net investment in Controlled Entity C has been hedged in Controlling Entity D's consolidated financial statements by the USD hedging instrument, not the entire EUR/USD risk. Therefore, the entire EUR/GBP risk from Controlling Entity D's £500 million net investment in Controlled Entity B may be hedged in the consolidated financial statements of Controlling Entity D.

B29. However, the accounting for Controlling Entity D's £159 million loan payable to Controlled Entity B must also be considered. If Controlling Entity D's loan payable is not considered part of its net investment in Controlled Entity B because it does not satisfy the conditions in IPSAS 4 paragraph 18, the GBP/EUR foreign exchange difference arising on translating it would be included in Controlling Entity D's consolidated surplus or deficit. If the £159 million loan payable to Controlled Entity B is considered part of Controlling Entity D's net investment, that net investment would be only £341 million and the amount Controlling Entity D could designate as the hedged item for GBP/EUR risk would be reduced from £500 million to £341 million accordingly.

B30. If Controlling Entity D reversed the hedging relationship designated by Controlled Entity B, Controlling Entity D could designate the US$300 million external borrowing held by Controlled Entity B as a hedge of its US$300 million net investment in Controlled Entity C for the EUR/USD risk and designate the GBP hedging instrument it holds itself as a hedge of only up to £341 million of the net investment in Controlled Entity B. In this case the effectiveness of both hedges would be computed by reference to Controlling Entity D's functional currency (euro). Consequently, both the USD/GBP change in value of the external borrowing held by Controlled Entity B and the GBP/EUR change in value of Controlling Entity D's loan payable to Controlled Entity B (equivalent to USD/EUR in total) would be included in the foreign currency translation reserve in Controlling Entity D's consolidated financial statements. Because Controlling Entity D has already fully hedged the EUR/USD risk from its net investment in Controlled Entity C, it can hedge only up to £341 million for the EUR/GBP risk of its net investment in Controlled Entity B.

Appendix C: Extinguishing Financial Liabilities with Equity Instruments

This Appendix is an integral part of IPSAS 41.

Introduction

C1. A debtor and creditor might renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor. These transactions are sometimes referred to as 'debt for equity swaps'.

Scope

C2. This Appendix addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor.

C3. An entity shall not apply this Appendix to transactions in situations where:

(a) The creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder.

(b) The creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity.

(c) Extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

C4. This Appendix addresses the following issues:

(a) Are an entity's equity instruments issued to extinguish all or part of a financial liability 'consideration paid' in accordance with paragraph 37 of IPSAS 41?

(b) How should an entity initially measure the equity instruments issued to extinguish such a financial liability?

(c) How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

Consensus

C5. The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 37 of IPSAS 41. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 35 of IPSAS 41.

C6. When equity instruments issued to a creditor to extinguish all or part of a financial liability are recognized initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured.

C7. If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (e.g., a demand deposit), paragraph 68 of IPSAS 41 is not applied.

C8. If only part of the financial liability is extinguished, the entity shall assess whether some of the consideration paid relates to a modification of the terms of the liability that remains outstanding. If part of the consideration

paid does relate to a modification of the terms of the remaining part of the liability, the entity shall allocate the consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding. The entity shall consider all relevant facts and circumstances relating to the transaction in making this allocation.

C9. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognized in surplus or deficit, in accordance with paragraph 37 of IPSAS 41. The equity instruments issued shall be recognized initially and measured at the date the financial liability (or part of that liability) is extinguished.

C10. When only part of the financial liability is extinguished, consideration shall be allocated in accordance with paragraph C8. The consideration allocated to the remaining liability shall form part of the assessment of whether the terms of that remaining liability have been substantially modified. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 36 of IPSAS 41.

C11. An entity shall disclose a gain or loss recognized in accordance with paragraphs C9 and C10 as a separate line item in surplus or deficit or in the notes.

Appendix D

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

Introduction

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 41, *Financial Instruments*. As this Standard is based on IFRS 9, *Financial Instruments* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 41 departs from the main requirements of IFRS 9.

BC2. In July 2014, the IASB published the final version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments*. In 2016, the IPSASB commenced work on a project to update those IPSAS that dealt with accounting for financial instruments as part of the IPSASB's convergence program which aims to converge IPSAS with IFRS. The text of IPSAS 41 is based on the requirements of IFRS 9, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. This new IPSAS replaces IPSAS 29, while providing entities a transition option to continue to apply the hedge accounting requirements of IPSAS 29.

BC3. When developing IPSAS 41, the IPSASB acknowledged that there are other financial instruments and items with some financial instruments' characteristics as defined in IPSAS 41 to the public sector, and which are not addressed in IFRS 9. The IPSASB has undertaken separate projects on *Public Sector Specific Financial Instruments*, and *Revenue and Transfer Expenses*, to address:

(a) Certain transactions undertaken by monetary authorities; and

(b) Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

Public Sector Specific Financial Instruments

BC3A. The Public Sector Specific Financial Instruments (PSSFI) project arose because, in developing IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, the IPSASB identified several items with characteristics that might make them public sector specific financial instruments (PSSFIs). These items were:

- Monetary gold;
- International Monetary Fund (IMF) quota subscriptions;
- IMF Special Drawing Rights (SDRs);
- Currency in circulation;
- Statutory receivables and payables;
- Concessionary loans; and
- Financial guarantee contracts.

BC3B. Of the items listed in BC3A, two public sector specific items — concessionary loans and financial guarantee contracts issued through non-exchange transactions — meet the definition of a financial instrument and thus were addressed in the application guidance in IPSAS 41. Neither statutory receivables nor payables are contractual, and so do not meet the definition of a financial instrument. The IPSASB agreed to address these instruments in a separate project.

BC3C. The IPSASB agreed to address the remaining public sector specific items in a PSSFI project. In July 2016, the IPSASB issued a Consultation Paper (CP), Public Sector Specific Financial Instruments which provided a detailed analysis of these items. This analysis included definitions, which were developed to reflect the substance of these items as well as conventions included in IPSAS and discussions by the IPSASB related to the transactions in an accounting context. The IPSASB intended for these definitions to have the same substance as guidance included in the various Government Finance Statistics manuals referenced.

BC3D. Respondents to the CP agreed that:

(a) Several of the items meet the definition of a financial instrument in IPSAS and therefore should be addressed in existing guidance; and

(b) Items that meet the IPSAS definition of a financial instrument should be accounted for in accordance with existing IPSAS accounting principles.

In considering these responses to the CP, the IPSASB concluded, where possible, that PSSFIs should be addressed in the current financial instruments standards and the scope should be retained. This eliminated the need to incorporate the detailed analysis and definitions from the CP in non-authoritative amendments to IPSAS 41 as sufficient principles exist in IPSAS 41 to account for PSSFI items.

BC3E. The IPSASB noted that additional non-authoritative guidance would help users identify these specific financial items that are (or share characteristics of) financial instruments, and developed additional implementation guidance for monetary gold, currency in circulation, and SDRs. However, the IPSASB noted IMF quota subscriptions share a number of features with those in Illustrative Example 32 in IPSAS 41 and decided that additional guidance for quota subscriptions was not required. The IPSASB concluded that the additional illustrative examples and augmented implementation guidance provide appropriate guidance for accounting for monetary gold, currency in circulation, and SDRs.

BC3F. The IPSASB issued Exposure Draft (ED) 69 in August 2019 that proposed non-authoritative amendments to IPSAS 41 to illustrate the application of IPSAS 41 to PSSFIs. These amendments included the non-authoritative guidance noted in BC3E. Respondents to the ED supported the additional non-authoritative guidance provided by the IPSASB and the amendments proposed in the ED.

BC4. In developing this Standard, the IPSASB agreed to retain the existing text of IFRS 9 wherever consistent with existing IPSAS, and provide examples and implementation guidance for certain public sector specific issues. In particular, the IPSASB noted the usefulness of the application guidance on concessionary loans and financial guarantees issued through a non-exchange transaction in IPSAS 29 and the continued need for such guidance in IPSAS 41. The IPSASB's view is that it is critical to provide non-authoritative material to support constituents in applying the principles in this Standard. Therefore the IPSASB followed a rigorous process to develop the following additional public sector examples to help with application of this Standard:

(a) Examples related to concessionary loans, including when to assess the classification (see examples 20 and 21 and implementation guidance G.1) and the impact of contingent repayment features (see implementation guidance G.2);

(b) Examples related to measurement of unquoted equity instruments, including factors to be considered in determining the fair value (see examples 23–26 and implementation guidance E.2.4 and E.2.5) and accounting for those with a non-exchange component (see examples 27 and 28 and implementation guidance G.3);

(c) Example related to accounting for equity instruments with redemption features (see example 31);

(d) Examples related to the application of the effective interest rate in calculating the amortized cost of a financial asset (see examples 32 and implementation guidance H.1).

BC5. The IPSASB also agreed to use revenue in place of income in IFRS 9, *Financial Instruments*, to be consistent with IPSAS 1, *Presentation of Financial Statements*, which uses revenue to correspond to income in the IAS/IFRS. Therefore some items recognized as revenue or expense in IPSAS 1 are net amounts. As stated in the Basis for Conclusions in IPSAS 1, the IPSAS do not include a definition of income. The term income is broader than revenue, encompassing gains in addition to revenue.

Scope

BC6. Assets and liabilities may arise out of contractual non-exchange revenue transactions. At the time this Standard was developed, the initial recognition and measurement of assets and liabilities arising out of non-exchange revenue transactions was addressed in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. IPSAS 23 did not provide requirements and guidance for the subsequent measurement or derecognition of these assets and liabilities. The IPSASB considered the interaction between this Standard and IPSAS 23 for assets and liabilities that arise out of non-exchange revenue transactions that meet the definition of financial assets and financial liabilities.

BC7. When this Standard was being developed, the IPSASB agreed that where an asset acquired in a non-exchange transaction is a financial asset, an entity:

- Initially recognized the asset using IPSAS 23; and
- Initially measured the asset using IPSAS 23 and, considers the requirements in this Standard to determine the appropriate treatment for any transaction costs incurred to acquire the asset.

As IPSAS 23 did not prescribe subsequent measurement or derecognition requirements for assets acquired in a non-exchange transaction, this Standard is applied to those assets if they are financial assets.

BC8. For liabilities, the IPSASB agreed, when developing this Standard, that liabilities arising from conditions imposed on a transfer of resources in accordance with IPSAS 23 are initially recognized and initially measured using that IPSAS, as these liabilities usually do not meet the definition of a financial liability at initial recognition (see IPSAS 28). After initial recognition, if circumstances indicate that the liability is a financial liability, an entity assesses if the liability recognized in accordance with IPSAS 23 should be derecognized and a financial liability recognized in accordance with this Standard.

BC9. At the time IPSAS 41 was finalized, the IPSASB agreed that other liabilities that arise from non-exchange revenue transactions, for example, the return of resources based on a restriction on the use of an asset, are recognized and measured in accordance with this Standard if they meet the definition of a financial liability.

Initial Measurement

BC10. When the IPSASB developed this Standard, the IPSASB acknowledged that there is an interaction between IPSAS 23 and this Standard for assets acquired through a non-exchange transaction that also meet the definition of a financial asset. IPSAS 23 required that assets acquired in a non-exchange revenue transaction were measured initially at fair value. This Standard requires financial assets to be measured initially at fair value, plus transaction costs, if the asset is not subsequently measured at fair value through surplus or deficit. The two measurement approaches are broadly consistent, except for the treatment of transaction costs.

BC11. At that time, the IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions. Consequently, the IPSASB agreed that financial assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but that this Standard should also be considered where transaction costs are incurred to acquire the asset.

BC11A. During the development of IPSAS 45, *Property, Plant, and Equipment* and IPSAS 46, *Measurement*, the requirement in IPSAS 23 for initial measurement of financial assets received through a non-exchange transaction was clarified to reflect that these are measured at fair value.

Equity Instruments Arising from Non-Exchange Transactions

BC12. In the public sector, equity instruments are sometimes obtained with minimal cash flow expectations as a way to provide funding to another public sector entity for providing a service. The IPSASB considered the need for additional guidance similar to concessionary loans for such equity instruments acquired at non-market terms. The IPSASB agreed that there are fundamental differences between the economic substance of such arrangements compared to concessionary loans. The IPSASB also agreed that, when this Standard was developed, the guidance in IPSAS 23 and the Standard sufficiently addressed the recognition and measurement of such transactions, and additional guidance was included to provide clarity.

Sale of Future Flows Arising from a Sovereign Right

BC13. In the public sector, securitization schemes may involve a sale of future flows arising from a sovereign right, such as a right to taxation. The IPSASB agreed that it would be helpful to acknowledge that such transactions may give rise to financial liabilities and agreed to include paragraph AG33. The IPSASB noted that revenue from such transactions should be accounted for in accordance with the relevant revenue standard. The IPSASB considered whether additional application guidance to address such scenarios was required. The IPSASB concluded that sufficient guidance exists in the Standard to address the accounting for any financial instruments arising from those transactions.

Impairment

BC14. The IPSASB notes that for many public sector entities, receivables may be the only significant financial asset held. In addition, public sector entities may not have an ability to choose the counterparties they transact with because of the nature of services provided and laws or regulations requiring provision of services to all service recipients (for example, when a public utility provides water or hydro services). Under such scenarios, credit risk information at an individual counterparty level and forward looking information/forecasts may not be available without undue cost or effort. The IPSASB considered whether public sector modifications or additional guidance should be included in the Standard and concluded that the simplified approach for receivables along with practical expedients available in determining expected credit losses provide appropriate relief to the practical challenges under such scenarios. The IPSASB further acknowledges that the Standard allows for historical data and existing models be incorporated in estimating expected credit losses under such circumstances with consideration for any adjustments as needed to reflect current and forecasted conditions, as prescribed in the Standard."

Effective Interest Method

BC15. Constituents raised concerns with the IPSASB in regard to the cost/benefit of measuring financial liabilities (bonds) at amortized cost using the effective interest method. These constituents were concerned that, when transaction costs and any premium or discount on issuance are insignificant, measuring amortized cost using the effective interest rate produced similar or identical results to using the straight line method. However, the costs of applying the effective interest method were greater.

BC16. The IPSASB noted that paragraph 10 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, addressed this concern. Paragraph 10 of IPSAS 3 states that:

"IPSAS set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate

to make, or leave uncorrected, immaterial departures from IPSAS to achieve a particular presentation of an entity's financial position, financial performance, or cash flows."

BC17. The IPSASB considered that, in instances when amortized cost calculated using the effective interest method is not materially different than an existing technique, the standards already allow for alternative approaches. The IPSASB also noted that IPSAS 1 includes similar provisions in relation to disclosures. Consequently, the IPSASB concluded that there was no cost/benefit justification for departing from the use of effective interest method in IPSAS 41.

Gold Bullion

BC18. Gold bullion does not meet the definition of a financial instrument as defined in IFRS 9. Given the proposals in its PSSFI project related to monetary gold, the IPSASB considered whether this was appropriate. The IPSASB noted that gold bullion has a wider meaning than monetary gold, and for entities that are not monetary authorities, the guidance may be appropriate. The IPSASB therefore agreed to include Implementation Guidance B.1.

Monetary Gold

BC18A. As part of the PSSFI project, the IPSASB considered accounting for gold held by monetary authorities as reserve assets that are available to them in carrying out their mandates, i.e., monetary gold. Some constituents indicated the scope of IPSAS 41 should be expanded to include monetary gold as it shares several characteristics with a financial asset. For example, monetary gold is:

(a) Readily convertible into cash;

(b) Quoted globally in US dollars;

(c) Easily traded with willing counterparties (durable, divisible and portable);

(d) Accepted as a form of payment by some central banks; and

(e) A store of wealth.

Furthermore, monetary gold can be held for:

(a) Its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and

(b) An indeterminate period of time, because it provides confidence in the monetary authority's financial strength and ability to carry out its activities.

BC18B. In considering the responses to the CP, the IPSASB confirmed its view that monetary gold is not a financial instrument. Although monetary gold is a highly liquid asset, there is no contractual right to receive cash or another financial asset inherent in monetary gold.

BC18C. The IPSASB also confirmed that the scope of IPSAS 41 should not be expanded. Nevertheless, the IPSASB considered whether applying the principles in IPSAS 41 to monetary gold might be appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC18D. The IPSASB concluded that, while monetary gold shares several characteristics with a financial asset, as noted in paragraph BC18A, the hierarchy set out in IPSAS 3 requires an entity to assess all facts specific to the circumstances related to the holding of monetary gold. Should an entity account for monetary gold using principles consistent with those applied to financial assets, the IPSASB expects all classification and measurement requirements set out in IPSAS 41 to be applied.

Transition

BC19. The IPSASB noted some public sector transactions may be reclassified under IPSAS 41. The IPSASB considered whether specific transitional provisions may be required for such reclassifications. The IPSASB noted that both general and specific transition relief was included in IFRS 9 and has been adopted in IPSAS 41. This includes a specific provision that provides relief from providing comparative information. The IPSASB therefore concluded that additional relief was not required.

Originated Credit-Impaired Short-Term Receivables

BC20. As required by paragraphs 85–86, an entity includes expected credit losses over the life of a financial asset in the initial measurement of an instrument that is credit-impaired on purchase or origination. An entity is also required to include the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate.

BC21. The IPSASB noted that public sector entities are often required to transact with other parties to provide basic services, irrespective of whether those parties can afford to pay for the services received. This means that there is a high prevalence of transactions where collectability is in doubt at the initiation of the transaction. The potential implications of introducing the requirements for purchased or originated credit-impaired transactions could therefore have a pervasive effect on public sector entities.

BC22. Given the potential implications, the Board considered the effect of including credit losses in the initial measurement of the receivable and on the recognition of revenue related to the sale of goods and services. In particular, the Board discussed whether this principle creates onerous financial reporting requirements for public sector entities that are required to enter into receivables that are originated credit-impaired.

BC23. The IPSASB took the view that the costs to apply the originated credit-impaired requirements to short-term receivables would exceed the benefit for public sector entities. This is because regardless of whether the short-term receivable is originated credit-impaired or performing, the entity must calculate the expected credit losses. As short-term receivables are due in periods not exceeding 12 months, the lifetime and 12 month expected credit losses are equal. Consequently, benefits of the information provided by applying the originated credit-impaired requirements in IPSAS 41 are not justified by the cost of identifying short-term receivables that are originated credit-impaired in a portfolio of short-term receivables arising from routine, high volume transactions integral to the day to day operations of the entity.

BC24. As a result, the Board agreed that the principles for purchased or originated credit-impaired instruments should not be applied to short-term receivables. The Board noted that while it supports a departure from IFRS 9, it is on cost/benefit grounds, rather than a disagreement with the conceptual merits of the principle.

Analyzing the Substance of Equity Instruments Arising from Non-Exchange Transactions

BC25. Constituents noted that it can be difficult to identify when an equity instrument arises from a non-exchange transaction and sought additional guidance.

BC26. When developing this Standard, the IPSASB considered that the existing requirements and guidance in IPSAS 28 and IPSAS 23 already appropriately addressed these matters. IPSAS 28 defines an equity instrument and explains how to determine whether a financial instrument is a financial liability or an equity instrument. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, paragraph 28, included examples of contributions from owners. Nevertheless, the IPSASB agreed to develop implementation guidance (paragraph G.4) to support constituents in analyzing the substance of financial instruments arising from non-exchange transactions.

Designating Hedged Items in Consolidated Financial Statements

BC27. The IPSASB acknowledged there is an interaction between IPSAS 35 and this Standard when determining which instruments can be designated as hedged items. Generally, this Standard allows assets, liabilities and firm commitments or highly probable transactions with a party external to the reporting entity to be designated as a hedged item for hedge accounting purposes. The restriction to only allow for instruments transacted with a party external to the reporting entity is necessary as transactions within the consolidated entity are eliminated in accordance with IPSAS 35.

BC28. However, in accordance with IPSAS 35, paragraphs 56 and 58, an investment entity does not consolidate its controlled entities, and a controlling entity of an investment entity shall present consolidated financial statements measuring the investments of a controlled investment entity at fair value through surplus or deficit.

BC29. The IPSASB concluded it would be inappropriate for transactions between a controlled investment entity and the investments of that controlled investment entity not to be eligible for designation as hedged items. Consequently, the IPSASB decided that hedge accounting can be applied to transactions between entities in the same economic entity in the consolidated statements of an investment entity or the consolidated statements of a controlling entity of an investment entity.

Illustrative Examples with Jurisdiction Specific Fact Patterns

BC30. Some respondents suggested that illustrative examples would be more helpful if they included jurisdiction specific characteristics. These constituents indicated that generic illustrative examples would be more useful to constituents if characteristics common among some jurisdictions were illustrated.

BC31. During the project the IPSASB developed illustrative examples based on fact patterns proposed by individual jurisdictions. This resulted in complex examples illustrating the application of multiple principles. When a constituent's fact pattern did not mirror the characteristics of the illustrative example, interpreting the application of any individual principle was challenging and was only helpful where an entity already had an understanding of how the accounting principles underlying financial instruments interact. The IPSASB concluded that such examples are unhelpful to the majority of entities.

BC32. Consequently, the IPSASB decided that each illustrative example should illustrate the application of a single principle. This will provide useful guidance to a broader range of entities and assist in understanding basic concepts. When an entity has a more sophisticated fact pattern, individual illustrative examples can be aggregated as necessary in order to determine the appropriate application of the principles.

Consistency with IFRS 9

BC33. In developing IPSAS 41, the IPSASB applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 9 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development, the IPSASB debated a number of issues and whether departure was justified.

Short-Term Receivables and Payables

BC34. Consistent with the fair value measurement guidance in IPSAS 29, IPSAS 41 proposed to permit short-term receivables and payables with no stated interest rate to be measured at the original invoice amount if the effect of discounting is immaterial. This option was located in the Application Guidance in IPSAS 41. Respondents to IPSAS 41 noted that IFRS 9 has an exception to fair value measurement for certain short-term trade receivables (as defined in IFRS 15) and were concerned about what they perceived as the absence of an equivalent exception in IPSAS 41. The IPSASB decided to highlight the existence of this option by moving it to the body of the standard and locating it in a similar place to the exception for short-term

receivables in IFRS 9. The IPSASB also noted that paragraph 10 of IPSAS 3 already permits entities not to apply accounting policies set out in accordance with IPSAS when the effect of applying them is immaterial.

BC35. To maintain consistent measurement requirements, the IPSASB agreed short-term receivables and payables are measured at the original invoice amount if the effect of discounting is immaterial (see paragraph 60).

Acceptable Valuation Methodologies

BC36. IPSAS 41 requires entities to measure equity instruments at fair value. Given the public policy objectives of public sector entities, constituents expressed concerns that measuring fair value can be challenging as significant opportunity exists for investments in to be in the form of unquoted equity instruments.

BC37. Some constituents expressed concerns about whether the fair value of such investments should be determined solely in a commercial manner by reference to expected cash flows with the objective of estimating how much the investment could be sold for in an arm's length transaction or whether fair value measurement should take into account other factors, such as the service potential of the unquoted equity investment.

BC38. In considering this issue, the IPSASB developed illustrative examples 24–28 outlining various valuation techniques the public sector could apply in determining the fair value of the unquoted equity investment. These valuation techniques outlined in the examples are not an exhaustive list of valuation methodologies available.

BC39. In order to highlight that public sector entities have a wide range of valuation techniques available when determining the fair value of an unquoted equity instrument, the IPSASB developed specific implementation guidance. IG E.2.4 does not prescribe the use of a specific valuation technique, but instead encourages the use of professional judgment and the consideration of all the facts and circumstances surrounding the selection of an appropriate measurement technique.

Valuation Assumptions

BC40. Some respondents proposed adding guidance to address which inputs should be applied in fair value measurement and which assumptions should be applied in developing these inputs. Respondents highlighted challenges and complexities in determining inputs such as the prevailing market rates for a similar loan and the probability of default.

BC41. The IPSASB acknowledges measuring some financial instruments can be a challenging process and that one aspect of this challenge relates to inputs.

BC42. The IPSASB concluded that developing additional valuation guidance is beyond the scope of the Standard and consider the application of professional judgment an important aspect in measuring the fair value of financial instruments.

Fair Value at Initial Recognition does not Equal the Transaction Price

BC43. In developing this Standard, the IPSASB concluded that retaining paragraphs AG103–AG116 of IPSAS 29 was necessary in order to maintain a consistent approach to the valuation of financial instruments. This decision was reached because unlike in IFRS, where IFRS 9 directs users to IFRS 13, *Fair Value Measurement*, for guidance in measuring the fair value of a financial instrument, this option is not available as no equivalent IPSAS has been developed for IFRS 13.

Public Sector Specific Examples

BC44. Some respondents proposed that the IPSASB develop additional illustrative examples to support the application of the standard in practice. The IPSASB considered this request and agreed to develop additional illustrative examples and implementation guidance to the extent it related to an issue specific to the public

sector. The IPSASB rejected respondents' proposals for additional illustrative examples for instruments that were also prevalent in the private sector. For these instruments, the IPSASB concluded that guidance drawn from IFRS 9 was sufficient to address the concerns of respondents and no departures were warranted.

Revision of IPSAS 41 as a result of *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41)

BC45. The IPSASB reviewed the revisions to IFRS 9, *Financial Instruments*, included in *Prepayment Features with Negative Compensation* (Amendments to IFRS 9), issued by the IASB in October 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and concurred that there was no public sector specific reason for not adopting the amendments.

Revision of IPSAS 41 as a result of *COVID-19: Deferral of Effective Dates*

BC46. The IPSASB published IPSAS 41, *Financial Instruments* in August 2018. At the time this Standard was finalized, the Board decided that an entity shall apply it for annual financial statements covering periods beginning on or after January 1, 2022.

BC47. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of IPSAS 41.

BC48. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of IPSAS 41.

BC49. The Board did not propose any changes to the Standard other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 41 as a result of *Improvements to IPSAS, 2021*

BC50. The IPSASB reviewed the revisions to IFRS 9, *Financial Instruments*, included in *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) issued by the IASB in September 2019, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform*.

BC51. The IPSASB reviewed the revisions to IFRS 9, *Financial Instruments*, included in *Interest Rate Benchmark Reform*—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform—Phase 2*.

BC52. The IPSASB reviewed the revisions to IFRS 9, *Financial Instruments, included in Annual Improvements to IFRS® Standards* (2018-2020) issued by the IASB in May 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions and concurred that there was no public sector specific reason for not adopting these amendments.

Revision of IPSAS 41 as a result of IPSAS 46, *Measurement*

BC53. The IPSASB issued IPSAS 46, *Measurement*, in May 2023. That Standard provides guidance on measuring assets and liabilities at fair value, which is relevant to the measuring financial instruments. Guidance specific to applying fair value to the measurement of financial instruments was added as application guidance (see paragraphs AG143A–AG143AB).

Revision of IPSAS 41 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC54. The IPSASB replaced the term ‘valuation techniques’ with the term ‘measurement techniques’ for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

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Illustrative Examples

These examples accompany, but are not part of, IPSAS 41.

Financial Liabilities at Fair Value through Surplus or Deficit

IE1. The following example illustrates the calculation that an entity might perform in accordance with paragraph AG241 of IPSAS 41.

IE2. On January 1, 20X1 an entity issues a 10-year bond with a par value of CU150,000[5] and an annual fixed coupon rate of 8 per cent, which is consistent with market rates for bonds with similar characteristics.

IE3. The entity uses LIBOR as its observable (benchmark) interest rate. At the date of inception of the bond, LIBOR is 5 per cent. At the end of the first year:

(a) LIBOR has decreased to 4.75 per cent.

(b) LIBOR has decreased to 4.75 per cent. The fair value for the bond is CU153,811, consistent with an interest rate of 7.6 percent.[6]

IE4. The entity assumes a flat yield curve, all changes in interest rates result from a parallel shift in the yield curve, and the changes in LIBOR are the only relevant changes in market conditions.

IE5. The entity estimates the amount of change in the fair value of the bond that is not attributable to changes in market conditions that give rise to market risk as follows:

[paragraph AG241(a)] First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.	At the start of the period of a 10-year bond with a coupon of 8 per cent, the bond's internal rate of return is 8 per cent. Because the observed (benchmark) interest rate (LIBOR) is 5 per cent, the instrument-specific component of the internal rate of return is 3 per cent.
[paragraph AG241(b)] Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in accordance with paragraph AG241(a).	The contractual cash flows of the instrument at the end of the period are: Interest: CU12,000[(a)] per year for each of years 2–10. Principal: CU150,000 in year 10. The discount rate to be used to calculate the present value of the bond is thus 7.75 per cent, which is the end of period LIBOR rate of 4.75 per cent, plus the 3 per cent instrument-specific component. This gives a present value of CU152,367.[(b)]

5 In this guidance monetary amounts are denominated in 'currency units' (CU).

6 This reflects a shift in LIBOR from 5 per cent to 4.75 per cent and a movement of 0.15 per cent which, in the absence of other relevant changes in market conditions, is assumed to reflect changes in credit risk of the instrument.

[paragraph AG241(c)] The difference between the observed market price of the liability at the end of the period and the amount determined in accordance with paragraph AG241(b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be presented in net assets/equity in accordance with paragraph 108(a).	The market price of the liability at the end of the period is CU153,811.(c) Thus, the entity presents CU1,444 in net assets/equity, which is CU153,811 – CU152,367, as the increase in fair value of the bond that is not attributable to changes in market conditions that give rise to market risk.

(a) CU150,000 × 8 percent = CU12,000.

(b) PV = [CU12,000 × (1 – (1 + 0.0775)-9)/0.0775] + CU150,000 × (1 + 0.0775)-9.

(c) market price = [CU12,000 × (1 – (1 + 0.076)-9)/0.076] + CU150,000 × (1 + 0.076)-9.

Impairment (Paragraphs 73–93)

Assessing Significant Increases in Credit Risk Since Initial Recognition

IE6. The following examples illustrate possible ways to assess whether there have been significant increases in credit risk since initial recognition. For simplicity of illustration, the following examples only show one aspect of the credit risk analysis. However, the assessment of whether lifetime expected credit losses should be recognized is a multifactor and holistic analysis that considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed.

Example 1—Significant Increase in Credit Risk

IE7. Company Y has a funding structure that includes a senior secured loan facility with different tranches[7]. Company Y qualifies for assistance from the National Development Bank which provides a tranche of the loan facility to Company Y. At the time of origination of the loan by the National Development Bank, although Company Y's leverage was relatively high compared with other issuers with similar credit risk, it was expected that Company Y would be able to meet the covenants for the life of the instrument. In addition, the generation of revenue and cash flow was expected to be stable in Company Y's industry over the term of the senior facility. However, there was some business risk related to the ability to grow gross margins within its existing businesses.

IE8. At initial recognition, because of the considerations outlined in paragraph IE7, the National Development Bank considers that despite the level of credit risk at initial recognition, the loan is not an originated credit-impaired loan because it does not meet the definition of a credit-impaired financial asset in paragraph 9 of IPSAS 41.

IE9. Subsequent to initial recognition, macroeconomic changes have had a negative effect on total sales volume and Company Y has underperformed on its business plan for revenue generation and net cash flow generation. Although spending on inventory has increased, anticipated sales have not materialized. To increase liquidity, Company Y has drawn down more on a separate revolving credit facility, thereby increasing its leverage ratio. Consequently, Company Y is now close to breaching its covenants on the senior secured loan facility with the National Development Bank.

[7] The security on the loan affects the loss that would be realized if a default occurs, but does not affect the risk of a default occurring, so it is not considered when determining whether there has been a significant increase in credit risk since initial recognition as required by paragraph 75 of IPSAS 41.

IE10. The National Development Bank makes an overall assessment of the credit risk on the loan to Company Y at the reporting date by taking into consideration all reasonable and supportable information that is available without undue cost or effort and that is relevant for assessing the extent of the increase in credit risk since initial recognition. This may include factors such as:

(a) The National Development Bank's expectation that the deterioration in the macroeconomic environment may continue in the near future, which is expected to have a further negative impact on Company Y's ability to generate cash flows and to deleverage.

(b) Company Y is closer to breaching its covenants, which may result in a need to restructure the loan or reset the covenants.

(c) The National Development Bank's assessment that the trading prices for Company Y's bonds have decreased and that the credit margin on newly originated loans have increased reflecting the increase in credit risk, and that these changes are not explained by changes in the market environment (for example, benchmark interest rates have remained unchanged). A further comparison with the pricing of Company Y's peers shows that reductions in the price of Company Y's bonds and increases in credit margin on its loans have probably been caused by company-specific factors.

(d) The National Development Bank has reassessed its internal risk grading of the loan on the basis of the information that it has available to reflect the increase in credit risk.

IE11. The National Development Bank determines that there has been a significant increase in credit risk since initial recognition of the loan in accordance with paragraph 75 of IPSAS 41. Consequently, the National Development Bank recognizes lifetime expected credit losses on its senior secured loan to Company Y. Even if the National Development Bank has not yet changed the internal risk grading of the loan it could still reach this conclusion—the absence or presence of a change in risk grading in itself is not determinative of whether credit risk has increased significantly since initial recognition.

Example 2—No Significant Increase in Credit Risk

IE12. Company C, is the holding company of a group that operates in a cyclical production industry. State Government B provided a loan to Company C. At that time, the prospects for the industry were positive, because of expectations of further increases in global demand. However, input prices were volatile and given the point in the cycle, a potential decrease in sales was anticipated.

IE13. In addition, in the past Company C has been focused on external growth, acquiring majority stakes in companies in related sectors. As a result, the group structure is complex and has been subject to change, making it difficult for investors to analyze the expected performance of the group and to forecast the cash that will be available at the holding company level. Even though leverage is at a level that is considered acceptable by Company C's creditors at the time that State Government B originates the loan, its creditors are concerned about Company C's ability to refinance its debt because of the short remaining life until the maturity of the current financing. There is also concern about Company C's ability to continue to service interest using the dividends it receives from its operating subsidiaries.

IE14. At the time of the origination of the loan by State Government B, Company C's leverage was in line with that of other borrowers with similar credit risk and based on projections over the expected life of the loan, the available capacity (i.e., headroom) on its coverage ratios before triggering a default event, was high. State Government B applies its own internal rating methods to determine credit risk and allocates a specific internal rating score to its loans. State Government B's internal rating categories are based on historical, current and forward-looking information and reflect the credit risk for the tenor of the loans. On initial recognition, State Government B determines that the loan is subject to considerable credit risk, has speculative elements and that the uncertainties affecting Company C, including the group's uncertain prospects for cash generation,

could lead to default. However, State Government B does not consider the loan to be originated credit-impaired because it does not meet the definition of a purchased or originated credit-impaired financial asset in paragraph 9 of IPSAS 41.

IE15. Subsequent to initial recognition, Company C has announced that three of its five key subsidiaries had a significant reduction in sales volume because of deteriorated market conditions but sales volumes are expected to improve in line with the anticipated cycle for the industry in the following months. The sales of the other two subsidiaries were stable. Company C has also announced a corporate restructure to streamline its operating subsidiaries. This restructuring will increase the flexibility to refinance existing debt and the ability of the operating subsidiaries to pay dividends to Company C.

IE16. Despite the expected continuing deterioration in market conditions, State Government B determines, in accordance with paragraph 75 of IPSAS 41, that there has not been a significant increase in the credit risk on the loan to Company C since initial recognition. This is demonstrated by factors that include:

(a) Although current sale volumes have fallen, this was as anticipated by State Government B at initial recognition. Furthermore, sales volumes are expected to improve, in the following months.

(b) Given the increased flexibility to refinance the existing debt at the operating subsidiary level and the increased availability of dividends to Company C, State Government B views the corporate restructure as being credit enhancing. This is despite some continued concern about the ability to refinance the existing debt at the holding company level.

(c) State Government B's credit risk department, which monitors Company C, has determined that the latest developments are not significant enough to justify a change in its internal credit risk rating.

IE17. As a consequence, State Government B does not recognize a loss allowance at an amount equal to lifetime expected credit losses on the loan. However, it updates its measurement of the 12-month expected credit losses for the increased risk of a default occurring in the next 12 months and for current expectations of the credit losses that would arise if a default were to occur.

Example 3—Highly Collateralized Financial Asset

IE18. Company H owns land which is financed by a five-year loan from the State owned Agricultural Bank with a loan-to-value (LTV) ratio of 50 per cent. The loan is secured by a first-ranking security over the land. At initial recognition of the loan, the State owned Agricultural Bank does not consider the loan to be originated credit-impaired as defined in paragraph 9 of IPSAS 41.

IE19. Subsequent to initial recognition, the revenues and operating profits of Company H have decreased because of an economic recession. Furthermore, expected increases in regulations have the potential to further negatively affect revenue and operating profit. These negative effects on Company H's operations could be significant and ongoing.

IE20. As a result of these recent events and expected adverse economic conditions, Company H's free cash flow is expected to be reduced to the point that the coverage of scheduled loan payments could become tight. The State owned Agricultural Bank estimates that a further deterioration in cash flows may result in Company H missing a contractual payment on the loan and becoming past due.

IE21. Recent third party appraisals have indicated a decrease in the value of the land, resulting in a current LTV ratio of 70 per cent.

IE22. At the reporting date, the loan to Company H is not considered to have low credit risk in accordance with paragraph 82 of IPSAS 41. The State owned Agricultural Bank therefore needs to assess whether there has been a significant increase in credit risk since initial recognition in accordance with paragraph 75 of IPSAS 41, irrespective of the value of the collateral it holds. It notes that the loan is subject to considerable

credit risk at the reporting date because even a slight deterioration in cash flows could result in Company H missing a contractual payment on the loan. As a result, the State owned Agricultural Bank determines that the credit risk (i.e., the risk of a default occurring) has increased significantly since initial recognition. Consequently, the State owned Agricultural Bank recognizes lifetime expected credit losses on the loan to Company H.

IE23. Although lifetime expected credit losses should be recognized, the measurement of the expected credit losses will reflect the recovery expected from the collateral (adjusting for the costs of obtaining and selling the collateral) on the property as required by paragraph AG219 of IPSAS 41 and may result in the expected credit losses on the loan being very small.

Example 4—Public Investment-Grade Bond

IE24. Company A is a large listed national logistics company. The only debt in the capital structure is a five-year public bond with a restriction on further borrowing as the only bond covenant. Company A reports quarterly to its shareholders. The National Public Investment Fund is one of many investors in the bond. The Investment Fund considers the bond to have low credit risk at initial recognition in accordance with paragraph 82 of IPSAS 41. This is because the bond has a low risk of default and Company A is considered to have a strong capacity to meet its obligations in the near term. The Investment Fund's expectations for the longer term are that adverse changes in economic and business conditions may, but will not necessarily, reduce Company A's ability to fulfil its obligations on the bond. In addition, at initial recognition the bond had an internal credit rating that is correlated to a global external credit rating of investment grade.

IE25. At the reporting date, the Investment Fund's main credit risk concern is the continuing pressure on the total volume of sales that has caused Company A's operating cash flows to decrease.

IE26. Because the Investment Fund relies only on quarterly public information and does not have access to private credit risk information (because it is a bond investor), its assessment of changes in credit risk is tied to public announcements and information, including updates on credit perspectives in press releases from rating agencies.

IE27. The Investment Fund applies the low credit risk simplification in paragraph 82 of IPSAS 41. Accordingly, at the reporting date, the Investment Fund evaluates whether the bond is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Investment Fund reassesses the internal credit rating of the bond and concludes that the bond is no longer equivalent to an investment grade rating because:

(a) The latest quarterly report of Company A revealed a quarter-on-quarter decline in revenues of 20 per cent and in operating profit by 12 per cent.

(b) Rating agencies have reacted negatively to a profit warning by Company A and put the credit rating under review for possible downgrade from investment grade to non-investment grade. However, at the reporting date the external credit risk rating was unchanged.

(c) The bond price has also declined significantly, which has resulted in a higher yield to maturity. The Investment Fund assesses that the bond prices have been declining as a result of increases in Company A's credit risk. This is because the market environment has not changed (for example, benchmark interest rates, liquidity etc. are unchanged) and comparison with the bond prices of peers shows that the reductions are probably company specific (instead of being, for example, changes in benchmark interest rates that are not indicative of company-specific credit risk).

IE28. While Company A currently has the capacity to meet its commitments, the large uncertainties arising from its exposure to adverse business and economic conditions have increased the risk of a default occurring on the bond. As a result of the factors described in paragraph IE27, the Investment Fund determines that the bond

does not have low credit risk at the reporting date. As a result, the Investment Fund needs to determine whether the increase in credit risk since initial recognition has been significant. On the basis of its assessment, the Investment Fund determines that the credit risk has increased significantly since initial recognition and that a loss allowance at an amount equal to lifetime expected credit losses should be recognized in accordance with paragraph 75 of IPSAS 41.

Example 5—Responsiveness to Changes in Credit Risk

IE29. Housing Corporation ABC provides mortgages to citizens of ABC to finance residential real estate in three different regions. The mortgage loans are originated across a wide range of LTV criteria and a wide range of income groups. As part of the mortgage application process, borrowers are required to provide information such as the industry within which the borrower is employed and the post code of the property that serves as collateral on the mortgage.

IE30. Housing Corporation ABC sets its acceptance criteria based on credit scores. Loans with a credit score above the 'acceptance level' are approved because these borrowers are considered to be able to meet contractual payment obligations. When new mortgage loans are originated, Housing Corporation ABC uses the credit score to determine the risk of a default occurring as at initial recognition.

IE31. At the reporting date Housing Corporation ABC determines that economic conditions are expected to deteriorate significantly in all regions. Unemployment levels are expected to increase while the value of residential property is expected to decrease, causing the LTV ratios to increase. As a result of the expected deterioration in economic conditions, Housing Corporation ABC expects default rates on the mortgage portfolio to increase.

Individual Assessment

IE32. In Region One, Housing Corporation ABC assesses each of its mortgage loans on a monthly basis by means of an automated behavioral scoring process. Its scoring models are based on current and historical past due statuses, levels of borrower indebtedness, LTV measures, the loan size and the time since the origination of the loan. Housing Corporation ABC updates the LTV measures on a regular basis through an automated process that re-estimates property values using recent sales in each post code area and reasonable and supportable forward-looking information that is available without undue cost or effort.

IE33. Housing Corporation ABC has historical data that indicates a strong correlation between the value of residential property and the default rates for mortgages. That is, when the value of residential property declines, a borrower has less economic incentive to make scheduled mortgage repayments, increasing the risk of a default occurring.

IE34. Through the impact of the LTV measure in the behavioral scoring model, an increased risk of a default occurring due to an expected decline in residential property value adjusts the behavioral scores. The behavioral score can be adjusted as a result of expected declines in property value even when the mortgage loan is a bullet loan with the most significant payment obligations at maturity (and beyond the next 12 months). Mortgages with a high LTV ratio are more sensitive to changes in the value of the residential property and Housing Corporation ABC is able to identify significant increases in credit risk since initial recognition on individual borrowers before a mortgage becomes past due if there has been a deterioration in the behavioral score.

IE35. When the increase in credit risk has been significant, a loss allowance at an amount equal to lifetime expected credit losses is recognized. Housing Corporation ABC measures the loss allowance by using the LTV measures to estimate the severity of the loss, i.e., the loss given default (LGD). The higher the LTV measure, the higher the expected credit losses all else being equal.

IE36. If Housing Corporation ABC was unable to update behavioral scores to reflect the expected declines in property prices, it would use reasonable and supportable information that is available without undue cost or effort to undertake a collective assessment to determine the loans on which there has been a significant increase in credit risk since initial recognition and recognize lifetime expected credit losses for those loans.

Collective Assessment

IE37. In Regions Two and Three, Housing Corporation ABC does not have an automated scoring capability. Instead, for credit risk management purposes, Housing Corporation ABC tracks the risk of a default occurring by means of past due statuses. It recognizes a loss allowance at an amount equal to lifetime expected credit losses for all loans that have a past due status of more than 30 days past due. Although Housing Corporation ABC uses past due status information as the only borrower-specific information, it also considers other reasonable and supportable forward-looking information that is available without undue cost or effort to assess whether lifetime expected credit losses should be recognized on loans that are not more than 30 days past due. This is necessary in order to meet the objective in paragraph 76 of IPSAS 41 of recognizing lifetime expected credit losses for all significant increases in credit risk.

Region Two

IE38. Region Two includes a mining community that is largely dependent on the export of coal and related products. Housing Corporation ABC becomes aware of a significant decline in coal exports and anticipates the closure of several coal mines. Because of the expected increase in the unemployment rate, the risk of a default occurring on mortgage loans to borrowers who are employed by the coal mines is determined to have increased significantly, even if those borrowers are not past due at the reporting date. Housing Corporation ABC therefore segments its mortgage portfolio by the industry within which borrowers are employed (using the information recorded as part of the mortgage application process) to identify borrowers that rely on coal mining as the dominant source of employment (i.e., a 'bottom up' approach in which loans are identified based on a common risk characteristic). For those mortgages, Housing Corporation ABC recognizes a loss allowance at an amount equal to lifetime expected credit losses while it continues to recognize a loss allowance at an amount equal to 12-month expected credit losses for all other mortgages in Region Two.[8] Newly originated mortgages to borrowers who are economically dependent on the coal mines in this community would, however, have a loss allowance at an amount equal to 12-month expected credit losses because they would not have experienced significant increases in credit risk since initial recognition. However, some of these mortgages may experience significant increases in credit risk soon after initial recognition because of the expected closure of the coal mines.

Region Three

IE39. In Region Three, Housing Corporation ABC anticipates the risk of a default occurring and thus an increase in credit risk, as a result of an expected increase in interest rates during the expected life of the mortgages. Historically, an increase in interest rates has been a lead indicator of future defaults on mortgages in Region Three—especially when borrowers do not have a fixed interest rate mortgage. Housing Corporation ABC determines that the variable interest-rate portfolio of mortgages in Region Three is homogenous and that unlike for Region Two, it is not possible to identify particular sub-portfolios on the basis of shared risk characteristics that represent borrowers who are expected to have increased significantly in credit risk. However, as a result of the homogenous nature of the mortgages in Region Three, Housing Corporation ABC determines that an assessment can be made of a proportion of the overall portfolio that has significantly increased in credit risk since initial recognition (i.e., a 'top down' approach can be used). Based on historical

[8] Except for those mortgages that are determined to have significantly increased in credit risk based on an individual assessment, such as those that are more than 30 days past due. Lifetime expected credit losses would also be recognized on those mortgages.

information, Housing Corporation ABC estimates that an increase in interest rates of 200 basis points will cause a significant increase in credit risk on 20 per cent of the variable interest-rate portfolio. Therefore, as a result of the anticipated increase in interest rates, Housing Corporation ABC determines that the credit risk on 20 per cent of mortgages in Region Three has increased significantly since initial recognition. Accordingly Housing Corporation ABC recognizes lifetime expected credit losses on 20 per cent of the variable rate mortgage portfolio and a loss allowance at an amount equal to 12-month expected credit losses for the remainder of the portfolio.[9]

Example 6—Comparison to Maximum Initial Credit Risk

IE40. The Economic Development Agency has two portfolios of small business loans with similar terms and conditions in Region W. The Economic Development Agency's policy on financing decisions for each loan is based on an internal credit rating system that considers a borrower's credit history, payment behavior and other factors, and assigns an internal credit risk rating from 1 (lowest credit risk) to 10 (highest credit risk) to each loan on origination. The risk of a default occurring increases exponentially as the credit risk rating deteriorates so, for example, the difference between credit risk rating grades 1 and 2 is smaller than the difference between credit risk rating grades 2 and 3. Loans in Portfolio 1 were only offered to repeat borrowers with a similar internal credit risk rating and at initial recognition all loans were rated 3 or 4 on the internal rating scale. The Economic Development Agency determines that the maximum initial credit risk rating at initial recognition it would accept for Portfolio 1 is an internal rating of 4. Loans in Portfolio 2 were offered to borrowers that responded to an advertisement for small business loans and the internal credit risk ratings of these borrowers range between 4 and 7 on the internal rating scale. The Economic Development Agency never originates a small business loan with an internal credit risk rating worse than 7 (i.e., with an internal rating of 8–10).

IE41. For the purposes of assessing whether there have been significant increases in credit risk, the Economic Development Agency determines that all loans in Portfolio 1 had a similar initial credit risk. It determines that given the risk of default reflected in its internal risk rating grades, a change in internal rating from 3 to 4 would not represent a significant increase in credit risk but that there has been a significant increase in credit risk on any loan in this portfolio that has an internal rating worse than 5. This means that the Department of Finance does not have to know the initial credit rating of each loan in the portfolio to assess the change in credit risk since initial recognition. It only has to determine whether the credit risk is worse than 5 at the reporting date to determine whether lifetime expected credit losses should be recognized in accordance with paragraph 75 of IPSAS 41.

IE42. However, determining the maximum initial credit risk accepted at initial recognition for Portfolio 2 at an internal credit risk rating of 7, would not meet the objective of the requirements as stated in paragraph 76 of IPSAS 41. This is because the Economic Development Agency determines that significant increases in credit risk arise not only when credit risk increases above the level at which an entity would originate new financial assets (i.e., when the internal rating is worse than 7). Although the Economic Development Agency never originates a small business loan with an internal credit rating worse than 7, the initial credit risk on loans in Portfolio 2 is not of sufficiently similar credit risk at initial recognition to apply the approach used for Portfolio 1. This means that the Economic Development Agency cannot simply compare the credit risk at the reporting date with the lowest credit quality at initial recognition (for example, by comparing the internal credit risk rating of loans in Portfolio 2 with an internal credit risk rating of 7) to determine whether credit risk has increased significantly because the initial credit quality of loans in the portfolio is too diverse. For example, if a loan

[9] Except for those mortgages that are determined to have significantly increased in credit risk based on an individual assessment, such as those that are more than 30 days past due. Lifetime expected credit losses would also be recognized on those mortgages.

initially had a credit risk rating of 4 the credit risk on the loan may have increased significantly if its internal credit risk rating changes to 6.

Example 7—Counterparty Assessment of Credit Risk

Scenario 1

IE43. In 20X0 the Infrastructure Bank of Country A granted a loan of CU10,000 with a contractual term of 15 years to Company Q when the company had an internal credit risk rating of 4 on a scale of 1 (lowest credit risk) to 10 (highest credit risk). The risk of a default occurring increases exponentially as the credit risk rating deteriorates so, for example, the difference between credit risk rating grades 1 and 2 is smaller than the difference between credit risk rating grades 2 and 3. In 20X5, when Company Q had an internal credit risk rating of 6, the Infrastructure Bank issued another loan to Company Q for CU5,000 with a contractual term of 10 years. In 20X7 Company Q fails to retain its contract with a major customer and correspondingly experiences a large decline in its revenue. The Infrastructure Bank considers that as a result of losing the contract, Company Q will have a significantly reduced ability to meet its loan obligations and changes its internal credit risk rating to 8.

IE44. The Infrastructure Bank assesses credit risk on a counterparty level for credit risk management purposes and determines that the increase in Company Q's credit risk is significant. Although the Infrastructure Bank did not perform an individual assessment of changes in the credit risk on each loan since its initial recognition, assessing the credit risk on a counterparty level and recognizing lifetime expected credit losses on all loans granted to Company Q, meets the objective of the impairment requirements as stated in paragraph 76 of IPSAS 41. This is because, even since the most recent loan was originated (in 20X7) when Company Q had the highest credit risk at loan origination, its credit risk has increased significantly. The counterparty assessment would therefore achieve the same result as assessing the change in credit risk for each loan individually.

Scenario 2

IE45. The Infrastructure Bank of Country A granted a loan of CU150,000 with a contractual term of 20 years to Company X in 20X0 when the company had an internal credit risk rating of 4. During 20X5 economic conditions deteriorate and demand for Company X's products has declined significantly. As a result of the reduced cash flows from lower sales, Company X could not make full payment of its loan installment to the Infrastructure Bank. The Infrastructure Bank re-assesses Company X's internal credit risk rating, and determines it to be 7 at the reporting date. The Infrastructure Bank considered the change in credit risk on the loan, including considering the change in the internal credit risk rating, and determines that there has been a significant increase in credit risk and recognizes lifetime expected credit losses on the loan of CU150,000.

IE46. Despite the recent downgrade of the internal credit risk rating, the Infrastructure Bank grants another loan of CU50,000 to Company X in 20X6 with a contractual term of 5 years, taking into consideration the higher credit risk at that date.

IE47. The fact that Company X's credit risk (assessed on a counterparty basis) has previously been assessed to have increased significantly, does not result in lifetime expected credit losses being recognized on the new loan. This is because the credit risk on the new loan has not increased significantly since the loan was initially recognized. If the Infrastructure Bank only assessed credit risk on a counterparty level, without considering whether the conclusion about changes in credit risk applies to all individual financial instruments provided to the same borrower, the objective in paragraph 76 of IPSAS 41 would not be met.

Recognition and Measurement of Expected Credit Losses

IE48. The following examples illustrate the application of the recognition and measurement requirements in accordance with paragraphs 73–93 of IPSAS 41, as well as the interaction with the hedge accounting requirements.

Example 8—12-Month Expected Credit Loss Measurement Using an Explicit 'Probability of Default' Approach

Scenario 1

IE49. Government A originates a single 10 year amortizing loan for CU1 million. Taking into consideration the expectations for instruments with similar credit risk (using reasonable and supportable information that is available without undue cost or effort), the credit risk of the borrower, and the economic outlook for the next 12 months, Government A estimates that the loan at initial recognition has a probability of default (PD) of 0.5 per cent over the next 12 months. Government A also determines that changes in the 12-month PD are a reasonable approximation of the changes in the lifetime PD for determining whether there has been a significant increase in credit risk since initial recognition.

IE50. At the reporting date (which is before payment on the loan is due[10]), there has been no change in the 12-month PD and Government A determines that there was no significant increase in credit risk since initial recognition. Government A determines that 25 per cent of the gross carrying amount will be lost if the loan defaults (i.e., the LGD is 25 per cent).[11] Government A measures the loss allowance at an amount equal to 12-month expected credit losses using the 12-month PD of 0.5 per cent. Implicit in that calculation is the 99.5 per cent probability that there is no default. At the reporting date the loss allowance for the 12 month expected credit losses is CU1,250 (0.5 percent × 25 percent × CU1,000,000).

Scenario 2

IE51. Government B acquires a portfolio of 1,000 five year bullet loans for CU1,000 each (i.e., CU1million in total) with an average 12-month PD of 0.5 per cent for the portfolio. Government B determines that because the loans only have significant payment obligations beyond the next 12 months, it would not be appropriate to consider changes in the 12-month PD when determining whether there have been significant increases in credit risk since initial recognition. At the reporting date Government B therefore uses changes in the lifetime PD to determine whether the credit risk of the portfolio has increased significantly since initial recognition.

IE52. Government B determines that there has not been a significant increase in credit risk since initial recognition and estimates that the portfolio has an average LGD of 25 per cent. Government B determines that it is appropriate to measure the loss allowance on a collective basis in accordance with IPSAS 41. The 12-month PD remains at 0.5 per cent at the reporting date. Government B therefore measures the loss allowance on a collective basis at an amount equal to 12-month expected credit losses based on the average 0.5 per cent 12-month PD. Implicit in the calculation is the 99.5 per cent probability that there is no default. At the reporting date the loss allowance for the 12-month expected credit losses is CU1,250 (0.5 percent × 25 percent × CU1,000,000).

Example 9—12-Month Expected Credit Loss Measurement Based on a Loss Rate Approach

IE53. Government A originates 2,000 bullet loans with a total gross carrying amount of CU500,000. Government A segments its portfolio into borrower groups (Groups X and Y) on the basis of shared credit risk characteristics at initial recognition. Group X comprises 1,000 loans with a gross carrying amount per

[10] Thus for simplicity of illustration it is assumed there is no amortization of the loan.

[11] Because the LGD represents a percentage of the present value of the gross carrying amount, this example does not illustrate the time value of money.

borrower of CU200, for a total gross carrying amount of CU200,000. Group Y comprises 1,000 loans with a gross carrying amount per borrower of CU300, for a total gross carrying amount of CU300,000. There are no transaction costs and the loan contracts include no options (for example, prepayment or call options), premiums or discounts, points paid, or other fees.

IE54. Government A measures expected credit losses on the basis of a loss rate approach for Groups X and Y. In order to develop its loss rates, Government A considers samples of its own historical default and loss experience for those types of loans. In addition, Government A considers forward-looking information, and updates its historical information for current economic conditions as well as reasonable and supportable forecasts of future economic conditions. Historically, for a population of 1,000 loans in each group, Group X's loss rates are 0.3 percent, based on four defaults, and historical loss rates for Group Y are 0.15 percent, based on two defaults.

	Number of clients in sample	**Estimated per client gross carrying amount at default**	**Total estimated gross carrying amount at default**	**Historic per annum average defaults**	**Estimated total gross carrying amount at default**	**Present value of observed loss[(a)]**	**Loss rate**
Group	A	B	C = A × B	D	E = B × D	F	G = F ÷ C
X	1,000	CU200	CU200,000	4	CU800	CU600	0.3 percent
Y	1,000	CU300	CU300,000	2	CU600	CU450	0.15 percent

(a) In accordance with paragraph 90(b) expected credit losses should be discounted using the effective interest rate. However, for purposes of this example, the present value of the observed loss is assumed.

IE55. At the reporting date, Government A expects an increase in defaults over the next 12 months compared to the historical rate. As a result, Government A estimates five defaults in the next 12 months for loans in Group X and three for loans in Group Y. It estimates that the present value of the observed credit loss per client will remain consistent with the historical loss per client.

IE56. On the basis of the expected life of the loans, Government A determines that the expected increase in defaults does not represent a significant increase in credit risk since initial recognition for the portfolios. On the basis of its forecasts, Government A measures the loss allowance at an amount equal to 12-month expected credit losses on the 1,000 loans in each group amounting to CU750 and CU675 respectively. This equates to a loss rate in the first year of 0.375 per cent for Group X and 0.225 per cent for Group Y.

	Number of clients in sample	**Estimated per client gross carrying amount at default**	**Total estimated gross carrying amount at default**	**Expected defaults**	**Estimated total gross carrying amount at default**	**Present value of observed loss**	**Loss rate**
Group	A	B	C = A × B	D	E = B × D	F	G = F ÷ C
X	1,000	CU200	CU200,000	5	CU1,000	CU750	0.375 percent
Y	1,000	CU300	CU300,000	3	CU900	CU675	0.225 percent

IE57. Government A uses the loss rates of 0.375 percent and 0.225 percent respectively to estimate 12-month expected credit losses on new loans in Group X and Group Y originated during the year and for which credit risk has not increased significantly since initial recognition.

Example 10—Revolving Credit Facilities

IE58. The Development Agency of Country A issues revolving loans to small construction companies that deliver public infrastructure. These revolving loans provide small construction companies with liquidity when cash inflows are limited. The revolving loans have a one-day notice period after which the Development Agency has the contractual right to cancel the loan (both the drawn and undrawn components). However, the Development Agency does not enforce its contractual right to cancel the revolving loans in the normal day-to-day management of the instruments and only cancels facilities when it becomes aware of an increase in credit risk and starts to monitor borrowers on an individual basis. The Development Agency therefore does not consider the contractual right to cancel the revolving loans to limit its exposure to credit losses to the contractual notice period.

IE59. For credit risk management purposes the Development Agency considers that there is only one set of contractual cash flows from borrowers to assess and does not distinguish between the drawn and undrawn balances at the reporting date. The portfolio is therefore managed and expected credit losses are measured on a facility level.

IE60. At the reporting date the outstanding balance on the revolving loan portfolio is CU60,000 and the available undrawn facility is CU40,000. The Development Agency determines the expected life of the portfolio by estimating the period over which it expects to be exposed to credit risk on the facilities at the reporting date, taking into account:

(a) The period over which it was exposed to credit risk on a similar portfolio of revolving construction loans;

(b) The length of time for related defaults to occur on similar financial instruments; and

(c) Past events that led to credit risk management actions because of an increase in credit risk on similar financial instruments, such as the reduction or removal of undrawn credit limits.

IE61. On the basis of the information listed in paragraph IE60, Development Agency determines that the expected life of the revolving loan portfolio is 30 months.

IE62. At the reporting date the Development Agency assesses the change in the credit risk on the portfolio since initial recognition and determines in accordance with paragraph 75 of IPSAS 41 that the credit risk on a portion of the loan facilities representing 25 per cent of the portfolio, has increased significantly since initial recognition. The outstanding balance on these credit facilities for which lifetime expected credit losses should be recognized is CU20,000 and the available undrawn facility is CU10,000.

IE63. When measuring the expected credit losses in accordance with paragraph 93 of IPSAS 41, Development Agency considers its expectations about future draw-downs over the expected life of the portfolio (i.e., 30 months) in accordance with paragraph AG195 and estimates what it expects the outstanding balance (i.e., exposure at default) on the portfolio would be if borrowers were to default. By using its credit risk models Development Agency determines that the exposure at default on the revolving loan facilities for which lifetime expected credit losses should be recognized, is CU25,000 (i.e., the drawn balance of CU20,000 plus further draw-downs of CU5,000 from the available undrawn commitment). The exposure at default of the loan facilities for which 12-month expected credit losses are recognized, is CU45,000 (i.e., the outstanding balance of CU40,000 and an additional draw-down of CU5,000 from the undrawn commitment over the next 12 months).

IE64. The exposure at default and expected life determined by the Development Agency are used to measure the lifetime expected credit losses and 12-month expected credit losses on its loan portfolio.

IE65. The Development Agency measures expected credit losses on a facility level and therefore cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component. It recognizes expected credit losses for the undrawn commitment together with the loss

allowance for the loan component in the statement of financial position. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be presented as a provision (in accordance with IPSAS 30, *Financial Instruments: Disclosures*).

Example 11—Modification of Contractual Cash Flows

IE66. Government A originates a five-year loan that requires the repayment of the outstanding contractual amount in full at maturity. Its contractual par amount is CU1,000 with an interest rate of 5 per cent payable annually. The effective interest rate is 5 per cent. At the end of the first reporting period (Period 1), Government A recognizes a loss allowance at an amount equal to 12-month expected credit losses because there has not been a significant increase in credit risk since initial recognition. A loss allowance balance of CU20 is recognized.

IE67. In the subsequent reporting period (Period 2), Government A determines that the credit risk on the loan has increased significantly since initial recognition. As a result of this increase, Government A recognizes lifetime expected credit losses on the loan. The loss allowance balance is CU30.

IE68. At the end of the third reporting period (Period 3), following significant financial difficulty of the borrower, Government A modifies the contractual cash flows on the loan. It extends the contractual term of the loan by one year so that the remaining term at the date of the modification is three years. The modification does not result in the derecognition of the loan by Government A.

IE69. As a result of that modification, Government A recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows discounted at the loan's original effective interest rate of 5 per cent. In accordance with paragraph 71 of IPSAS 41, the difference between this recalculated gross carrying amount and the gross carrying amount before the modification is recognized as a modification gain or loss. Government A recognizes the modification loss (calculated as CU300) against the gross carrying amount of the loan, reducing it to CU700, and a modification loss of CU300 in surplus or deficit.

IE70. Government A also remeasures the loss allowance, taking into account the modified contractual cash flows and evaluates whether the loss allowance for the loan shall continue to be measured at an amount equal to lifetime expected credit losses. Government A compares the current credit risk (taking into consideration the modified cash flows) to the credit risk (on the original unmodified cash flows) at initial recognition. Government A determines that the loan is not credit-impaired at the reporting date but that credit risk has still significantly increased compared to the credit risk at initial recognition and continues to measure the loss allowance at an amount equal to lifetime expected credit losses. The loss allowance balance for lifetime expected credit losses is CU100 at the reporting date.

Period	**Beginning gross carrying amount**	**Impairment (loss)/gain**	**Modification (loss)/gain**	**Interest revenue**	**Cash flows**	**Ending gross carrying amount**	**Loss allowance**	**Ending amortised cost amount**
	A	B	C	D Gross: A × 5 percent	E	F = A + C + D – E	G	H = F – G
1	CU1,000	(CU20)		CU50	CU50	CU1,000	CU20	CU980
2	CU1,000	(CU10)		CU50	CU50	CU1,000	CU30	CU970
3	CU1,000	(CU70)	(CU300)	CU50	CU50	CU700	CU100	CU600

IE71. At each subsequent reporting date, Government A evaluates whether there is a significant increase in credit risk by comparing the loan's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at the reporting date (based on the modified cash flows), in accordance with paragraph 84 of IPSAS 41.

IE72. Two reporting periods after the loan modification (Period 5), the borrower has outperformed its business plan significantly compared to the expectations at the modification date. In addition, the outlook for the business is more positive than previously envisaged. An assessment of all reasonable and supportable information that is available without undue cost or effort indicates that the overall credit risk on the loan has decreased and that the risk of a default occurring over the expected life of the loan has decreased, so Government A adjusts the borrower's internal credit rating at the end of the reporting period.

IE73. Given the positive overall development, Government A re-assesses the situation and concludes that the credit risk of the loan has decreased and there is no longer a significant increase in credit risk since initial recognition. As a result, Government A once again measures the loss allowance at an amount equal to 12-month expected credit losses.

Example 12—Provision Matrix

IE74. Municipality M provides water delivery services for households within its jurisdiction. Households are invoiced on a monthly basis based on the water consumed during the period. This represents a portfolio of trade receivables of CU30 million in 20X1 for Municipality M. The portfolio consists of a large number of households with small balances outstanding. The trade receivables are categorized by common risk characteristics that are representative of the households' abilities to pay all amounts due in accordance with the contractual terms. The trade receivables do not have a significant financing component. In accordance with paragraph 87 of IPSAS 41 the loss allowance for such trade receivables is always measured at an amount equal to lifetime time expected credit losses.

IE75. To determine the expected credit losses for the portfolio, Municipality M uses a provision matrix. The provision matrix is based on its historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. In this case it is forecast that economic conditions will deteriorate over the next year.

IE76. On that basis, Municipality M estimates the following provision matrix:

	Current	**1–30 days past due**	**31–60 days past due**	**61–90 days past due**	**More than 90 days past due**
Default rate	0.3 percent	1.6 percent	3.6 percent	6.6 percent	10.6 percent

IE77. The trade receivables from the large number of households amount to CU30 million and are measured using the provision matrix.

	Gross carrying amount	**Lifetime expected credit loss allowance (Gross carrying amount × lifetime expected credit loss rate)**
Current	CU15,000,000	CU45,000
1–30 days past due	CU7,500,000	CU120,000
31–60 days past due	CU4,000,000	CU144,000
61–90 days past due	CU2,500,000	CU165,000

	Gross carrying amount	Lifetime expected credit loss allowance (Gross carrying amount × lifetime expected credit loss rate)
More than 90 days past due	CU1,000,000	CU106,000
	CU30,000,000	**CU580,000**

Example 13—Debt Instrument Measured at Fair Value through Net Assets/Equity

IE78. Public Investment Fund A purchases a debt instrument with a fair value of CU1,000 on December 15, 20X0 and measures the debt instrument at fair value through net assets/equity. The instrument has an interest rate of 5 per cent over the contractual term of 10 years, and has a 5 per cent effective interest rate. At initial recognition the entity determines that the asset is not purchased or originated credit-impaired.

	Debit	Credit
Financial asset—Fair Value Through Net Assets/Equity	CU1,000	
Cash		CU1,000
(To recognize the debt instrument measured at its fair value)		

IE79. On December 31, 20X0 (the reporting date), the fair value of the debt instrument has decreased to CU950 as a result of changes in market interest rates. The entity determines that there has not been a significant increase in credit risk since initial recognition and that expected credit losses should be measured at an amount equal to 12-month expected credit losses, which amounts to CU30. For simplicity, journal entries for the receipt of interest revenue are not provided.

	Debit	Credit
Impairment loss (surplus or deficit)	CU30	
Net Assets/Equity[(a)]	CU20	
Financial asset—Fair Value Through Net Assets/Equity		CU50
(To recognize 12-month expected credit losses and other fair value changes on the debt instrument)		

(a) The cumulative loss in net assets/equity at the reporting date was CU20. That amount consists of the total fair value change of CU50 (i.e., CU1,000 – CU950) offset by the change in the accumulated impairment amount representing 12-month expected credit losses that was recognized (CU30).

IE80. Disclosure would be provided about the accumulated impairment amount of CU30.

IE81. On January 1, 20X1, the entity decides to sell the debt instrument for CU950, which is its fair value at that date.

	Debit	Credit
Cash	CU950	
Financial asset—Fair Value Through Net Assets/Equity		CU950

	Debit	Credit
Loss (surplus or deficit)	CU20	
Net Assets/Equity		CU20
(To derecognize the fair value through net assets/equity asset and recycle amounts accumulated in net assets/equity to surplus or deficit)		

Example 14—Interaction Between the Fair Value Through Net Assets/Equity Measurement Category and Foreign Currency Denomination, Fair Value Hedge Accounting and Impairment

IE82. This example illustrates the accounting relating to a debt instrument denominated in a foreign currency, measured at fair value through net assets/equity and designated in a fair value hedge accounting relationship. The example illustrates the interaction with accounting for impairment.

IE83. An entity purchases a debt instrument (a bond) denominated in a foreign currency (FC) for its fair value of FC100,000 on January 1, 20X0 and classifies the bond as measured at fair value through net assets/equity. The bond has five years remaining to maturity and a fixed coupon of 5 per cent over its contractual life on the contractual par amount of FC100,000. On initial recognition the bond has a 5 per cent effective interest rate. The entity's functional currency is its local currency (LC). The exchange rate is FC1 to LC1 on January 1, 20X0. At initial recognition the entity determines that the bond is not purchased or originated credit-impaired. In addition, as at January 1, 20X0 the 12-month expected credit losses are determined to be FC1,200. Its amortized cost in FC as at January 1, 20X0 is equal to its gross carrying amount of FC100,000 less the 12-month expected credit losses (FC100,000—FC1,200).

IE84. The entity has the following risk exposures:

(a) Fair value interest rate risk in FC: the exposure that arises as a result of purchasing a fixed interest rate instrument; and

(b) Foreign exchange risk: the exposure to changes in foreign exchange rates measured in LC.

IE85. The entity hedges its risk exposures using the following risk management strategy:

(a) For fixed interest rate risk (in FC) the entity decides to link its interest receipts in FC to current variable interest rates in FC. Consequently, the entity uses interest rate swaps denominated in FC under which it pays fixed interest and receives variable interest in FC; and

(b) For foreign exchange risk the entity decides not to hedge against any variability in LC arising from changes in foreign exchange rates.

IE86. The entity designates the following hedge relationship:[12] a fair value hedge of the bond in FC as the hedged item with changes in benchmark interest rate risk in FC as the hedged risk. The entity enters into an on-market swap that pays fixed and receives variable interest on the same day and designates the swap as the hedging instrument. The tenor of the swap matches that of the hedged item (i.e., five years).

IE87. For simplicity, in this example it is assumed that no hedge ineffectiveness arises in the hedge accounting relationship. This is because of the assumptions made in order to better focus on illustrating the accounting mechanics in a situation that entails measurement at fair value through net assets/equity of a foreign currency

[12] This example assumes that all qualifying criteria for hedge accounting are met (see paragraph 129 of IPSAS 41). The following description of the designation is solely for the purpose of understanding this example (i.e., it is not an example of the complete formal documentation required in accordance with paragraph 129 of IPSAS 41).

financial instrument that is designated in a fair value hedge relationship, and also to focus on the recognition of impairment gains or losses on such an instrument.

IE88. The entity makes the following journal entries to recognize the bond and the swap on January 1, 20X0:

	Debit LC	Credit LC
Financial asset—Fair Value Through Net Assets/Equity	100,000	
Cash		100,000
(To recognize the bond at its fair value)		
Impairment loss (surplus or deficit)	1,200	
Net Assets/Equity		1,200
(To recognize the 12-month expected credit losses)[(a)]		
Swap	–	
Cash		–
(To recognize the swap at its fair value)		

(a) In case of items measured in the functional currency of an entity the journal entry recognizing expected credit losses will usually be made at the reporting date.

IE89. As of December 31, 20X0 (the reporting date), the fair value of the bond decreased from FC100,000 to FC96,370 because of an increase in market interest rates. The fair value of the swap increased to FC1,837. In addition, as at December 31, 20X0 the entity determines that there has been no change to the credit risk on the bond since initial recognition and continues to carry a loss allowance for 12-month expected credit losses at FC1,200.[13] As at December 31, 20X0, the exchange rate is FC1 to LC1.4. This is reflected in the following table:

	January 1, 20X0	December 31, 20X0
Bond		
Fair value (FC)	100,000	96,370
Fair value (LC)	100,000	134,918
Amortised cost (FC)	98,800	98,800
Amortised cost (LC)	98,800	138,320
Interest rate swap		
Interest rate swap (FC)	–	1,837

[13] For the purposes of simplicity the example ignores the impact of discounting when computing expected credit losses.

	January 1, 20X0	December 31, 20X0
Interest rate swap (LC)	–	2,572
Impairment – loss allowance		
Loss allowance (FC)	1,200	1,200
Loss allowance (LC)	1,200	1,680
FX rate (FC:LC)	1:1	1:1.4

IE90. The bond is a monetary asset. Consequently, the entity recognizes the changes arising from movements in foreign exchange rates in surplus or deficit in accordance with paragraphs 27(a) and 32 of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* and recognizes other changes in accordance with IPSAS 41. For the purposes of applying paragraph 32 of IPSAS 4 the asset is treated as an asset measured at amortized cost in the foreign currency.

IE91. As shown in the table, on December 31, 20X0 the fair value of the bond is LC134,918 (FC96,370 × 1.4) and its amortized cost is LC138,320 (FC(100,000 –1,200) × 1.4).

IE92. The gain recognized in surplus or deficit that is due to the changes in foreign exchange rates is LC39,520 (LC138,320 – LC98,800), i.e., the change in the amortized cost of the bond during 20X0 in LC. The change in the fair value of the bond in LC, which amounts to LC34,918, is recognized as an adjustment to the carrying amount. The difference between the fair value of the bond and its amortized cost in LC is LC3,402 (LC134,918 – LC138,320). However, the change in the cumulative gain or loss recognized in net assets/equity during 20X0 as a reduction is LC 4,602 (LC3,402 + LC1,200).

IE93. A gain of LC2,572 (FC1,837 × 1.4) on the swap is recognized in surplus or deficit and, because it is assumed that there is no hedge ineffectiveness, an equivalent amount is recycled from net assets/equity in the same period. For simplicity, journal entries for the recognition of interest revenue are not provided. It is assumed that interest accrued is received in the period.

IE94. The entity makes the following journal entries on December 31, 20X0:

	Debit LC	Credit LC
Financial asset—Fair Value Through Net Assets/Equity	34,918	
Net Assets/Equity	4,602	
Surplus or deficit		39,520
(To recognize the foreign exchange gain on the bond, the adjustment to its carrying amount measured at fair value in LC and the movement in the accumulated impairment amount due to changes in foreign exchange rates)		
Swap	2,572	
Surplus or deficit		2,572
(To remeasure the swap at fair value)		

	Debit LC	Credit LC
Surplus or deficit	2,572	
Net Assets/Equity		2,572
(To recognize in surplus or deficit the change in fair value of the bond due to a change in the hedged risk)		

IE95. In accordance with paragraph 20A of IPSAS 30, the loss allowance for financial assets measured at fair value through net assets/equity is not presented separately as a reduction of the carrying amount of the financial asset. However, disclosure would be provided about the accumulated impairment amount recognized in net assets/equity.

IE96. As at December 31, 20X1 (the reporting date), the fair value of the bond decreased to FC87,114 because of an increase in market interest rates and an increase in the credit risk of the bond. The fair value of the swap increased by FC255 to FC2,092. In addition, as at December 31, 20X1 the entity determines that there has been a significant increase in credit risk on the bond since initial recognition, so a loss allowance at an amount equal to lifetime expected credit losses is recognized.[14] The estimate of lifetime expected credit losses as at December 31, 20X1 is FC9,700. As at December 31, 20X1, the exchange rate is FC1 to LC1.25. This is reflected in the following table:

	December 31, 20X0	December 31, 20X1
Bond		
Fair value (FC)	96,370	87,114
Fair value (LC)	134,918	108,893
Amortised cost (FC)	98,800	90,300
Amortised cost (LC)	138,320	112,875
Interest rate swap		
Interest rate swap (FC)	1,837	2,092
Interest rate swap (LC)	2,572	2,615
Impairment – loss allowance		
Loss allowance (FC)	1,200	9,700
Loss allowance (LC)	1,680	12,125
FX rate (FC:LC)	1:1.4	1:1.25

[14] For simplicity this example assumes that credit risk does not dominate the fair value hedge relationship.

IE97. As shown in the table, as at December 31, 20X1 the fair value of the bond is LC108,893 (FC87,114 × 1.25) and its amortized cost is LC112,875 (FC(100,000 – 9,700) × 1.25).

IE98. The lifetime expected credit losses on the bond are measured as FC9,700 as of December 31, 20X1. Thus the impairment loss recognized in surplus or deficit in LC is LC10,625 (FC(9,700 – 1,200) × 1.25).

IE99. The loss recognized in surplus or deficit because of the changes in foreign exchange rates is LC14,820 (LC112,875 – LC138,320 + LC10,625), which is the change in the gross carrying amount of the bond on the basis of amortized cost during 20X1 in LC, adjusted for the impairment loss. The difference between the fair value of the bond and its amortized cost in the functional currency of the entity on December 31, 20X1 is LC3,982 (LC108,893 – LC112,875). However, the change in the cumulative gain or loss recognized in net assets/equity during 20X1 as a reduction in net assets/equity is LC11,205 (LC3,982 – LC3,402 + LC10,625).

IE100. A gain of LC43 (LC2,615 – LC2,572) on the swap is recognized in surplus or deficit and, because it is assumed that there is no hedge ineffectiveness, an equivalent amount is recycled from net assets/equity in the same period.

IE101. The entity makes the following journal entries on December 31, 20X1:

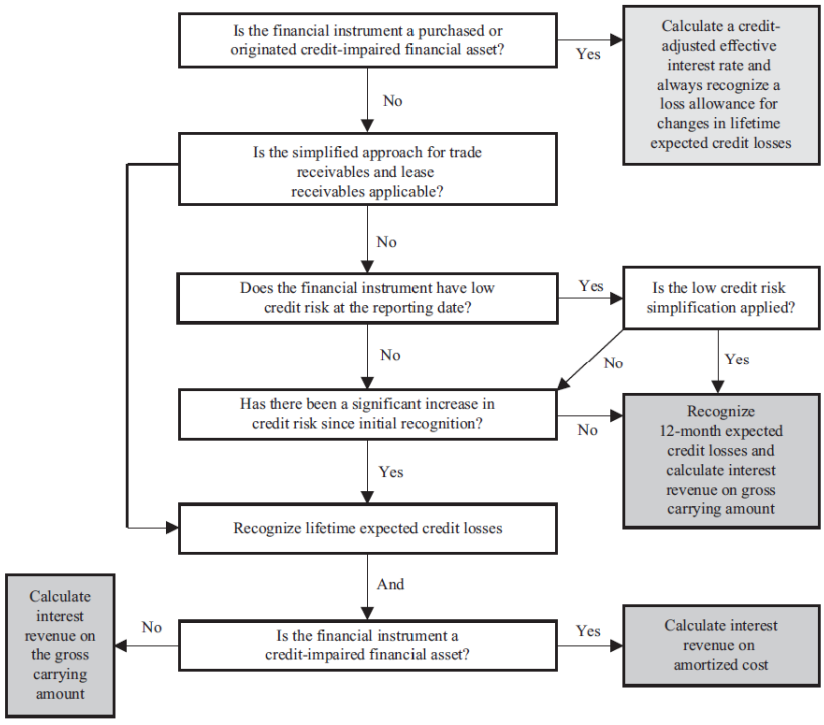
	Debit LC	**Credit LC**
Financial asset—Fair Value Through Net Assets/Equity		26,025
Net Assets/Equity	11,205	
Surplus or deficit	14,820	
(To recognize the foreign exchange gain on the bond, the adjustment to its carrying amount measured at fair value in LC and the movement in the accumulated impairment amount due to changes in foreign exchange rates)		
Swap	43	
Surplus or deficit		43
(To remeasure the swap at fair value)		
Surplus or deficit	43	
Net Assets/Equity		43
(To recognize in surplus or deficit the change in fair value of the bond due to a change in the hedged risk)		
Surplus or deficit (impairment loss)	10,625	
Net Assets/Equity (accumulated impairment amount)		10,625
(To recognize lifetime expected credit losses)		

IE102. On January 1, 20X2, the entity decides to sell the bond for FC 87,114, which is its fair value at that date and also closes out the swap at fair value. The foreign exchange rate is the same as at December 31, 20X1. The journal entries to derecognize the bond and reclassify the gains and losses that have accumulated in net assets/equity would be as follows:

	Debit LC	Credit LC
Cash	108,893	
Financial asset—Fair Value Through Net Assets/Equity		108,893
Loss on sale (surplus or deficit)	1,367[(a)]	
Net Assets/Equity		1,367
(To derecognize the bond)		
Swap		2,615
Cash	2,615	
(To close out the swap)		

(a) This amount consists of the changes in fair value of the bond, the accumulated impairment amount and the changes in foreign exchange rates recognized in net assets/equity (LC2,572 + LC1,200 + LC43 + LC10,625 – LC4,602 – LC11,205 = -LC1,367, which is recycled as a loss in surplus or deficit).

Application of the Impairment Requirements on a Reporting Date



Reclassification of Financial Assets (Paragraphs 94–100)

IE103. This example illustrates the accounting requirements for the reclassification of financial assets between measurement categories in accordance with paragraphs 94–100 of IPSAS 41. The example illustrates the interaction with the impairment requirements in paragraphs 73–93 of IPSAS 41.

Example 15—Reclassification of Financial Assets

IE104. An entity purchases a portfolio of bonds for its fair value (gross carrying amount) of CU500,000.

IE105. The entity changes the management model for managing the bonds in accordance with paragraph 54 of IPSAS 41. The fair value of the portfolio of bonds at the reclassification date is CU490,000.

IE106. If the portfolio was measured at amortized cost or at fair value through net assets/equity immediately prior to reclassification, the loss allowance recognized at the date of reclassification would be CU6,000 (reflecting a significant increase in credit risk since initial recognition and thus the measurement of lifetime expected credit losses).

IE107. The 12-month expected credit losses at the reclassification date are CU4,000.

IE108. For simplicity, journal entries for the recognition of interest revenue are not provided.

Scenario 1: Reclassification Out of the Amortized Cost Measurement Category and into the Fair Value through Surplus or Deficit Measurement Category

IE109. Department of Treasury A reclassifies the portfolio of bonds out of the amortized cost measurement category and into the fair value through surplus or deficit measurement category. At the reclassification date, the portfolio of bonds is measured at fair value. Any gain or loss arising from a difference between the previous amortized cost amount of the portfolio of bonds and the fair value of the portfolio of bonds is recognized in surplus or deficit on reclassification.

	Debit	**Credit**
Bonds (Fair Value Through Surplus or Deficit assets)	CU490,000	
Bonds (gross carrying amount of the amortized cost assets)		CU500,000
Loss allowance	CU6,000	
Reclassification loss (surplus or deficit)	CU4,000	
(To recognize the reclassification of bonds from amortized cost to fair value through surplus or deficit and to derecognize the loss allowance.)		

Scenario 2: Reclassification Out of the Fair Value through Surplus or Deficit Measurement Category and into the Amortized Cost Measurement Category

IE110. Department of Treasury A reclassifies the portfolio of bonds out of the fair value through surplus or deficit measurement category and into the amortized cost measurement category. At the reclassification date, the fair value of the portfolio of bonds becomes the new gross carrying amount and the effective interest rate is determined based on that gross carrying amount. The impairment requirements apply to the bond from the reclassification date. For the purposes of recognizing expected credit losses, the credit risk of the portfolio of bonds at the reclassification date becomes the credit risk against which future changes in credit risk shall be compared.

	Debit	Credit
Bonds (gross carrying amount of the amortized cost assets)	CU490,000	
Bonds (Fair Value Through Surplus or Deficit assets)		CU490,000
Impairment loss (surplus or deficit)	CU4,000	
Loss allowance		CU4,000
(To recognize reclassification of bonds from fair value through surplus or deficit to amortized cost including commencing accounting for impairment.)		

Scenario 3: Reclassification Out of the Amortized Cost Measurement Category and into the Fair Value through Net Assets/Equity Measurement Category

IE111. Department of Treasury A reclassifies the portfolio of bonds out of the amortized cost measurement category and into the fair value through net assets/equity measurement category. At the reclassification date, the portfolio of bonds is measured at fair value. Any gain or loss arising from a difference between the previous amortized cost amount of the portfolio of bonds and the fair value of the portfolio of bonds is recognized in net assets/equity. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. The credit risk at initial recognition continues to be used to assess changes in credit risk. From the reclassification date the loss allowance ceases to be recognized as an adjustment to the gross carrying amount of the bond and is recognized as an accumulated impairment amount, which would be disclosed.

	Debit	Credit
Bonds (Fair Value Through Net Assets/Equity assets)	CU490,000	
Bonds (gross carrying amount of amortized cost assets)		CU500,000
Loss allowance	CU6,000	
Net Assets/Equity [(a)]	CU4,000	
(To recognize the reclassification from amortized cost to fair value through net assets/equity. The measurement of expected credit losses is however unchanged.)		

(a) For simplicity, the amount related to impairment is not shown separately. If it had been, this journal entry (i.e., DR CU4,000) would be split into the following two entries: DR Net Assets/Equity CU10,000 (fair value changes) and CR Net Assets/Equity CU6,000 (accumulated impairment amount).

Scenario 4: Reclassification Out of the Fair Value through Net Assets/Equity Measurement Category and into the Amortized Cost Measurement Category

IE112. Department of Treasury A reclassifies the portfolio of bonds out of the fair value through net assets/equity measurement category and into the amortized cost measurement category. The portfolio of bonds is reclassified at fair value. However, at the reclassification date, the cumulative gain or loss previously recognized in net assets/equity is removed from net assets/equity and adjusted against the fair value of the portfolio of bonds. As a result, the portfolio of bonds is measured at the reclassification date as if it had always

been measured at amortized cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. The credit risk at initial recognition continues to be used to assess changes in the credit risk on the bonds. The loss allowance is recognized as an adjustment to the gross carrying amount of the bond (to reflect the amortized cost amount) from the reclassification date.

	Debit	**Credit**
Bonds (gross carrying value of the amortized cost assets)	CU490,000	
Bonds (Fair Value Through Net Assets/Equity assets)		CU490,000
Bonds (gross carrying value of the amortized cost assets)	CU10,000	
Loss allowance		CU6,000
Net Assets/Equity [(a)]		CU4,000
(To recognize the reclassification from fair value through net assets/equity to amortized cost including the recognition of the loss allowance deducted to determine the amortized cost amount. The measurement of expected credit losses is however unchanged.)		

(a) The cumulative loss in net assets/equity at the reclassification date was CU4,000. That amount consists of the total fair value change of CU10,000 (i.e., CU500,000 – 490,000) offset by the accumulated impairment amount recognized (CU6,000) while the assets were measured at fair value through net assets/equity.

Scenario 5: Reclassification Out of the Fair Value through Surplus or Deficit Measurement Category and into the Fair Value Through Net Assets/Equity Measurement Category

IE113. Department of Treasury A reclassifies the portfolio of bonds out of the fair value through surplus or deficit measurement category and into the fair value through net assets/equity measurement category. The portfolio of bonds continues to be measured at fair value. However, for the purposes of applying the effective interest method, the fair value of the portfolio of bonds at the reclassification date becomes the new gross carrying amount and the effective interest rate is determined based on that new gross carrying amount. The impairment requirements apply from the reclassification date. For the purposes of recognizing expected credit losses, the credit risk of the portfolio of bonds at the reclassification date becomes the credit risk against which future changes in credit risk shall be compared.

	Debit	**Credit**
Bonds (Fair Value Through Net Assets/Equity assets)	CU490,000	
Bonds (Fair Value Through Surplus or Deficit assets)		CU490,000
Impairment loss (surplus or deficit)	CU4,000	
Net Assets/Equity		CU4,000
(To recognize the reclassification of bonds from fair value through surplus or deficit to fair value through net assets/equity including commencing accounting for impairment. The net assets/equity amount reflects the loss allowance at the date of reclassification (an accumulated impairment amount relevant for disclosure purposes) of CU4,000.)		

Scenario 6: Reclassification Out of the Fair Value through Net Assets/Equity Measurement Category and into the Fair Value Through Surplus or Deficit Measurement Category

IE114. Department of Treasury A reclassifies the portfolio of bonds out of the fair value through net assets/equity measurement category and into the fair value through surplus or deficit measurement category. The portfolio of bonds continues to be measured at fair value. However, the cumulative gain or loss previously recognized in net assets/equity is reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see IPSAS 1, *Presentation of Financial Statements*).

	Debit	Credit
Bonds (Fair Value Through Surplus or Deficit assets)	CU490,000	
Bonds (Fair Value Through Net Assets/Equity assets)		CU490,000
Reclassification loss (surplus or deficit)	CU4,000	
Net Assets/Equity [(a)]		CU4,000

(To recognize the reclassification of bonds from fair value through net assets/equity to fair value through surplus or deficit.)

(a) The cumulative loss in net assets/equity at the reclassification date was CU4,000. That amount consists of the total fair value change of CU10,000 (i.e., CU500,000 – 490,000) offset by the loss allowance that was recognized (CU6,000) while the assets were measured at fair value through net assets/equity.

Hedge Accounting for Aggregated Exposures

IE115. The following examples illustrate the mechanics of hedge accounting for aggregated exposures.

Example 16—Combined Commodity Price Risk and Foreign Currency Risk Hedge (Cash Flow Hedge/Cash Flow Hedge Combination)

Fact Pattern

IE116. Municipality A wants to hedge a highly probable forecast electricity purchase (which is expected to occur at the end of Period 5). Government A's functional currency is its Local Currency (LC). Electricity is traded in Foreign Currency (FC). Government A has the following risk exposures:

(a) Commodity price risk: the variability in cash flows for the purchase price, which results from fluctuations of the spot price of electricity in FC; and

(b) Foreign currency (FX) risk: the variability in cash flows that result from fluctuations of the spot exchange rate between LC and FC.

IE117. Municipality A hedges its risk exposures using the following risk management strategy:

(a) Municipality A uses benchmark commodity forward contracts, which are denominated in FC, to hedge its electricity purchases four periods before delivery. The electricity price that Municipality A actually pays for its purchase is different from the benchmark price because of differences in the type of electricity, the location and delivery arrangement.[15] This gives rise to the risk of changes in the relationship between the two electricity prices (sometimes referred to as 'basis risk'), which affects the

[15] For the purpose of this example it is assumed that the hedged risk is not designated based on a benchmark electricity price risk component. Consequently, the entire electricity price risk is hedged.

effectiveness of the hedging relationship. Municipality A does not hedge this risk because it is not considered economical under cost/benefit considerations.

(b) Municipality A also hedges its FX risk. However, the FX risk is hedged over a different horizon—only three periods before delivery. Municipality A considers the FX exposure from the variable payments for the electricity purchase in FC and the gain or loss on the commodity forward contract in FC as one aggregated FX exposure. Hence, Municipality A uses one single FX forward contract to hedge the FX cash flows from a forecast electricity purchase and the related commodity forward contract.

IE118. The following table sets out the parameters used for Example 16 (the 'basis spread' is the differential, expressed as a percentage, between the price of the electricity that Municipality A actually buys and the price for the benchmark electricity):

Example 16—Parameters

Period	**1**	**2**	**3**	**4**	**5**
Interest rates for remaining maturity [FC]	0.26%	0.21%	0.16%	0.06%	0.00%
Interest rates for remaining maturity [LC]	1.12%	0.82%	0.46%	0.26%	0.00%
Forward price [FC/MWh]	1.25	1.01	1.43	1.22	2.15
Basis spread	-5.00%	-5.50%	-6.00%	-3.40%	-7.00%
FX rate (spot) [FC/LC]	1.3800	1.3300	1.4100	1.4600	1.4300

Accounting Mechanics

IE119. Municipality A designates as cash flow hedges the following two hedging relationships:[16]

(a) A commodity price risk hedging relationship between the electricity price related variability in cash flows attributable to the forecast electricity purchase in FC as the hedged item and a commodity forward contract denominated in FC as the hedging instrument (the 'first level relationship'). This hedging relationship is designated at the end of Period 1 with a term to the end of Period 5. Because of the basis spread between the price of the electricity that Municipality A actually buys and the price for the benchmark electricity, Municipality A designates a volume of 112,500 MWh of electricity as the hedging instrument and a volume of 118,421 MWh as the hedged item.[17]

(b) An FX risk hedging relationship between the aggregated exposure as the hedged item and an FX forward contract as the hedging instrument (the 'second level relationship'). This hedging relationship is designated at the end of Period 2 with a term to the end of Period 5. The aggregated exposure that is designated as the hedged item represents the FX risk that is the effect of exchange rate changes, compared to the forward FX rate at the end of Period 2 (i.e., the time of designation of the FX risk

[16] This example assumes that all qualifying criteria for hedge accounting are met (see paragraph 129 of IPSAS 41). The following description of the designation is solely for the purpose of understanding this example (i.e., it is not an example of the complete formal documentation required in accordance with paragraph 129(b) of IPSAS 41).

[17] In this example, the current basis spread at the time of designation is coincidentally the same as Municipality A's long-term view of the basis spread (-5 per cent) that determines the volume of electricity purchases that it actually hedges. Also, this example assumes that Municipality A designates the hedging instrument in its entirety and designates as much of its highly probable forecast purchases as it regards as hedged. That results in a hedge ratio of 1/(100 percent -5 percent). Other entities might follow different approaches when determining what volume of their exposure they actually hedge, which can result in a different hedge ratio and also designating less than a hedging instrument in its entirety (see paragraph 129 of IPSAS 41).

hedging relationship), on the combined FX cash flows in FC of the two items designated in the commodity price risk hedging relationship, which are the forecast electricity purchase and the commodity forward contract. Municipality A's long-term view of the basis spread between the price of the electricity that it actually buys and the price for the benchmark electricity has not changed from the end of Period 1. Consequently, the actual volume of hedging instrument that Municipality A enters into (the nominal amount of the FX forward contract of FC140,625) reflects the cash flow exposure associated with a basis spread that had remained at -5 per cent. However, Municipality A's actual aggregated exposure is affected by changes in the basis spread. Because the basis spread has moved from -5 per cent to -5.5 per cent during Period 2, Municipality A's actual aggregated exposure at the end of Period 2 is FC140,027.

IE120. The following table sets out the fair values of the derivatives, the changes in the value of the hedged items and the calculation of the cash flow hedge reserves and hedge ineffectiveness:[18]

[18] In the following table for the calculations all amounts (including the calculations for accounting purposes of amounts for assets, liabilities, net assets/equity and surplus or deficit) are in the format of positive (plus) and negative (minus) numbers (e.g., a surplus or deficit amount that is a negative number is a loss).

Example 16—Calculations

Period			**1**	**2**	**3**	**4**	**5**
Commodity Price Risk Hedging Relationship (First Level Relationship)							
Forward Purchase Contract for Electricity							
Volume (MWh)	112,500						
Forward price [FC/ MWh]	1.25	Price (fwd) [FC/MWh]	1.25	1.01	1.43	1.22	2.15
Fair value [FC]			0	(26,943)	20,219	(3,373)	101,250
Fair value [LC]			0	(20,258)	14,339	(2,310)	70,804
Change in fair value [LC]				(20,258)	34,598	(16,650)	73,114
Hedged Forecast Electricity Purchase							
Hedge ratio	105.26%	Basis spread	-5.00%	-5.50%	-6.00%	-3.40%	-7.00%
Hedged volume	118,421	Price (fwd) [FC/MWh]	1.19	0.95	1.34	1.18	2.00
Implied forward price	1.1875	Present value [FC]	0	27,540	(18,528)	1,063	(96,158)
		Present value [LC]	0	20,707	(13,140)	728	(67,243)
Change in present value [LC]				20,707	(33,847)	13,868	(67,971)
Accounting			LC	LC	LC	LC	LC
Derivative			0	(20,258)	14,339	(2,310)	70,804
Cash flow hedge reserve			0	(20,258)	13,140	(728)	67,243
Change in cash flow hedge reserve				(20,258)	33,399	(13,868)	67,971
Surplus or deficit				0	1,199	(2,781)	5,143
Accumulated surplus or deficit			0	0	1,199	(1,582)	3,561
FX Risk Hedging Relationship (Second Level Relationship)							
FX rate [FC/LC]		Spot	1.3800	1.3300	1.4100	1.4600	1.4300
		Forward	1.3683	1.3220	1.4058	1.4571	1.4300
FX forward contract (Buy FC/Sell LC)							

Example 16—Calculations							
Period			**1**	**2**	**3**	**4**	**5**
Volume [FC]	140,625						
Forward rate (in P2)	1.3220	Fair value [LC]		0	(6,313)	(9,840)	(8,035)
Change in fair value [LC]					(6,313)	(3,528)	1,805
Hedged FX risk							
Aggregated FX exposure	Hedged volume [FC]			140,027	138,932	142,937	135,533
Present value [LC]				0	6,237	10,002	7,744
Change in present value [LC]					6,237	3,765	(2,258)
Accounting				LC	LC	LC	LC
Derivative				0	(6,313)	(9,840)	(8,035)
Cash flow hedge reserve				0	(6,237)	(9,840)	(7,744)
Change in cash flow hedge reserve					(6,237)	(3,604)	2,096
Surplus or deficit					(76)	76	(291)
Accumulated surplus or deficit				0	(76)	0	(291)

IE121. The commodity price risk hedging relationship is a cash flow hedge of a highly probable forecast transaction that starts at the end of Period 1 and remains in place when the FX risk hedging relationship starts at the end of Period 2, i.e., the first level relationship continues as a separate hedging relationship.

IE122. The volume of the aggregated FX exposure (in FC), which is the hedged volume of the FX risk hedging relationship, is the total of:[19]

(a) The hedged electricity purchase volume multiplied by the current forward price (this represents the expected spot price of the actual electricity purchase); and

(b) The volume of the hedging instrument (designated nominal amount) multiplied by the difference between the contractual forward rate and the current forward rate (this represents the expected price differential from benchmark electricity price movements in FC that Municipality A will receive or pay under the commodity forward contract).

IE123. The present value (in LC) of the hedged item of the FX risk hedging relationship (i.e., the aggregated exposure) is calculated as the hedged volume (in FC) multiplied by the difference between the forward FX

[19] For example, at the end of Period 3 the aggregated FX exposure is determined as: 118,421 MWh × 1.34 FC/MWh = FC159,182 for the expected price of the actual electricity purchase and 112,500 MWh × (1.25 [FC/ MWh] – 1.43 [FC/ MWh]) = FC(20,250) for the expected price differential under the commodity forward contract, which gives a total of FC138,932—the volume of the aggregated FX exposure at the end of Period 3.

rate at the measurement date and the forward FX rate at the designation date of the hedging relationship (i.e., the end of Period 2).[20]

IE124. Using the present value of the hedged item and the fair value of the hedging instrument, the cash flow hedge reserve and the hedge ineffectiveness are then determined (see paragraph 140 of IPSAS 41).

IE125. The following table shows the effect on Municipality A's statement of financial performance and its statement of financial position (for the sake of transparency the line items[21] are disaggregated on the face of the statements by the two hedging relationships, i.e., for the commodity price risk hedging relationship and the FX risk hedging relationship):

Example 16—Overview of Effect on Statements of Financial Performance and Financial Position *[All amounts in LC]*

Period	**1**	**2**	**3**	**4**	**5**
Statement of financial performance					
Hedge ineffectiveness					
Commodity hedge		0	(1,199)	2,781	(5,143)
FX hedge		0	76	(76)	291
Surplus or deficit	0	0	(1,123)	2,705	(4,852)
Statement of changes in net assets/equity					
Net assets/equity					
Commodity hedge		20,258	(33,399)	13,868	(67,971)
FX hedge		0	6,237	3,604	(2,096)
Total net assets/equity	0	20,258	(27,162)	17,472	(70,067)
Statement of financial position					
Commodity forward	0	(20,258)	14,339	(2,310)	70,804
FX forward		0	(6,313)	(9,840)	(8,035)
Total net assets	0	(20,258)	8,027	(12,150)	62,769

[20] For example, at the end of Period 3 the present value of the hedged item is determined as the volume of the aggregated exposure at the end of Period 3 (FC138,932) multiplied by the difference between the forward FX rate at the end of Period 3 (1/1.4058) and the forward FX rate and the time of designation (i.e., the end of Period 2: 1/1.3220) and then discounted using the interest rate (in LC) at the end of Period 3 with a term of 2 periods (i.e., until the end of Period 5 – 0.46 percent). The calculation is: FC138,932 × (1/(1.4058[FC/LC]) – 1/(1.3220 [FC/LC]))/(1 + 0.46 percent) = LC6,237.

[21] The line items used in this example are a possible presentation. Different presentation formats using different line items (including line items that include the amounts shown here) are also possible (IPSAS 30 sets out disclosure requirements for hedge accounting that include disclosures about hedge ineffectiveness, the carrying amount of hedging instruments and the cash flow hedge reserve).

Example 16—Overview of Effect on Statements of Financial Performance and Financial Position *[All amounts in LC]*

Period	**1**	**2**	**3**	**4**	**5**
Net assets/equity					
Net assets/equity					
Commodity hedge	0	20,258	(13,140)	728	(67,243)
FX hedge		0	6,237	9,840	7,744
	0	20,258	(6,904)	10,568	(59,499)
Accumulated surplus or deficit					
Commodity hedge	0	0	(1,199)	1,582	(3,561)
FX hedge		0	76	0	291
	0	0	(1,123)	1,582	(3,270)
Total net assets/equity	0	20,258	(8,027)	12,150	(62,769)

IE126. The total cost of inventory after hedging is as follows:[22]

Cost of inventory [all amounts in LC]	
Cash price (at spot for commodity price risk and FX risk)	165,582
Gain/loss from CFHR for commodity price risk	(67,243)
Gain/loss from CFHR for FX risk	7,744
Cost of inventory	106,083

IE127. The total overall cash flow from all transactions (the actual electricity purchase at the spot price and the settlement of the two derivatives) is LC102,813. It differs from the hedge adjusted cost of inventory by LC3,270, which is the net amount of cumulative hedge ineffectiveness from the two hedging relationships. This hedge ineffectiveness has a cash flow effect but is excluded from the measurement of the inventory.

[22] 'CFHR' is the cash flow hedge reserve, i.e., the amount accumulated in net assets/equity for a cash flow hedge.

Example 17—Combined Interest Rate Risk and Foreign Currency Risk Hedge (Fair Value Hedge/Cash Flow Hedge Combination)

Fact Pattern

IE128. State Government B wants to hedge a fixed rate liability that is denominated in Foreign Currency (FC). The liability has a term of four periods from the start of Period 1 to the end of Period 4. State Government B's functional currency is its Local Currency (LC). State Government B has the following risk exposures:

(a) Fair value interest rate risk and FX risk: the changes in fair value of the fixed rate liability attributable to interest rate changes, measured in LC.

(b) Cash flow interest rate risk: the exposure that arises as a result of swapping the combined fair value interest rate risk and FX risk exposure associated with the fixed rate liability (see (a) above) into a variable rate exposure in LC in accordance with State Government B's risk management strategy for FC denominated fixed rate liabilities (see paragraph 129(a) below).

IE129. State Government B hedges its risk exposures using the following risk management strategy:

(a) State Government B uses cross-currency interest rate swaps to swap its FC denominated fixed rate liabilities into a variable rate exposure in LC. State Government B hedges its FC denominated liabilities (including the interest) for their entire life. Consequently, State Government B enters into a cross-currency interest rate swap at the same time as it issues an FC denominated liability. Under the cross-currency interest rate swap State Government B receives fixed interest in FC (used to pay the interest on the liability) and pays variable interest in LC.

(b) State Government B considers the cash flows on a hedged liability and on the related cross-currency interest rate swap as one aggregated variable rate exposure in LC. From time to time, in accordance with its risk management strategy for variable rate interest rate risk (in LC), State Government B decides to lock in its interest payments and hence swaps its aggregated variable rate exposure in LC into a fixed rate exposure in LC. State Government B seeks to obtain as a fixed rate exposure a single blended fixed coupon rate (i.e., the uniform forward coupon rate for the hedged term that exists at the start of the hedging relationship).[23] Consequently, State Government B uses interest rate swaps (denominated entirely in LC) under which it receives variable interest (used to pay the interest on the pay leg of the cross-currency interest rate swap) and pays fixed interest.

IE130. The following table sets out the parameters used for Example 17:

Example 17—Parameters

	t0	Period 1	Period 2	Period 3	Period 4
FX spot rate [LC/FC]	1.2000	1.0500	1.4200	1.5100	1.3700
Interest curves (vertical presentation of rates for each quarter of a period on a p.a. basis)					

[23] An entity may have a different risk management strategy whereby it seeks to obtain a fixed rate exposure that is not a single blended rate but a series of forward rates that are each fixed for the respective individual interest period. For such a strategy the hedge effectiveness is measured based on the difference between the forward rates that existed at the start of the hedging relationship and the forward rates that exist at the effectiveness measurement date for the individual interest periods. For such a strategy a series of forward contracts corresponding with the individual interest periods would be more effective than an interest rate swap (that has a fixed payment leg with a single blended fixed rate).

Example 17—Parameters

	t0	Period 1	Period 2	Period 3	Period 4
LC	2.50%	5.02%	6.18%	0.34%	[N/A]
	2.75%	5.19%	6.26%	0.49%	
	2.91%	5.47%	6.37%	0.94%	
	3.02%	5.52%	6.56%	1.36%	
	2.98%	5.81%	6.74%		
	3.05%	5.85%	6.93%		
	3.11%	5.91%	7.19%		
	3.15%	6.06%	7.53%		
	3.11%	6.20%			
	3.14%	6.31%			
	3.27%	6.36%			
	3.21%	6.40%			
	3.21%				
	3.25%				
	3.29%				
	3.34%				
FC	3.74%	4.49%	2.82%	0.70%	[N/A]
	4.04%	4.61%	2.24%	0.79%	
	4.23%	4.63%	2.00%	1.14%	
	4.28%	4.34%	2.18%	1.56%	
	4.20%	4.21%	2.34%		
	4.17%	4.13%	2.53%		
	4.27%	4.07%	2.82%		
	4.14%	4.09%	3.13%		
	4.10%	4.17%			
	4.11%	4.13%			

Example 17—Parameters					
	t0	**Period 1**	**Period 2**	**Period 3**	**Period 4**
	4.11%	4.24%			
	4.13%	4.34%			
	4.14%				
	4.06%				
	4.12%				
	4.19%				

Accounting Mechanics

IE131. State Government B designates the following hedging relationships:[24]

(a) As a fair value hedge, a hedging relationship for fair value interest rate risk and FX risk between the FC denominated fixed rate liability (fixed rate FX liability) as the hedged item and a cross-currency interest rate swap as the hedging instrument (the 'first level relationship'). This hedging relationship is designated at the beginning of Period 1 (i.e., t0) with a term to the end of Period 4.

(b) As a cash flow hedge, a hedging relationship between the aggregated exposure as the hedged item and an interest rate swap as the hedging instrument (the 'second level relationship'). This hedging relationship is designated at the end of Period 1, when State Government B decides to lock in its interest payments and hence swaps its aggregated variable rate exposure in LC into a fixed rate exposure in LC, with a term to the end of Period 4. The aggregated exposure that is designated as the hedged item represents, in LC, the variability in cash flows that is the effect of changes in the combined cash flows of the two items designated in the fair value hedge of the fair value interest rate risk and FX risk (see (a) above), compared to the interest rates at the end of Period 1 (i.e., the time of designation of the hedging relationship between the aggregated exposure and the interest rate swap).

IE132. The following table[25] sets out the overview of the fair values of the derivatives, the changes in the value of the hedged items and the calculation of the cash flow hedge reserve and hedge ineffectiveness.[26] In this example, hedge ineffectiveness arises on both hedging relationships.[27]

Example 17—Calculations					
	t_0	**Period 1**	**Period 2**	**Period 3**	**Period 4**
Fixed rate FX liability					

[24] This example assumes that all qualifying criteria for hedge accounting are met (see paragraph 129 of IPSAS 41). The following description of the designation is solely for the purpose of understanding this example (i.e., it is not an example of the complete formal documentation required in accordance with paragraph 129(b) of IPSAS 41.

[25] Tables in this example use the following acronyms: 'CCIRS' for cross-currency interest rate swap, 'CF(s)' for cash flow(s), 'CFH' for cash flow hedge, 'CFHR' for cash flow hedge reserve, 'FVH' for fair value hedge, 'IRS' for interest rate swap and 'PV' for present value.

[26] In the following table for the calculations all amounts (including the calculations for accounting purposes of amounts for assets, liabilities and equity) are in the format of positive (plus) and negative (minus) numbers (e.g., an amount in the cash flow hedge reserve that is in brackets is a loss).

[27] For a situation such as in this example, hedge ineffectiveness can result from various factors, for example credit risk, differences in the day count method or, depending on whether it is included in the designation of the hedging instrument, the charge for exchanging different currencies that is included in cross-currency interest rate swaps (commonly referred to as the 'currency basis').

Example 17—Calculations

	t_0	Period 1	Period 2	Period 3	Period 4
Fair value [FC]	(1,000,000)	(995,522)	(1,031,008)	(1,030,193)	(1,000,000)
Fair value [LC]	(1,200,000)	(1,045,298)	(1,464,031)	(1,555,591)	(1,370,000)
Change in fair value [LC]		154,702	(418,733)	(91,560)	185,591
CCIRS (receive fixed FC/pay variable LC)					
Fair value [LC]	0	(154,673)	264,116	355,553	170,000
Change in fair value [LC]		(154,673)	418,788	91,437	(185,553)
IRS (receive variable/pay fixed)					
Fair value [LC]		0	18,896	(58,767)	0
Change in fair value [LC]			18,896	(77,663)	(58,767)
CF variability of the aggregated exposure					
Present value [LC]		0	(18,824)	58,753	0
Change in present value [LC]			(18,824)	77,577	(58,753)
CFHR					
Balance (end of period) [LC]		0	18,824	(58,753)	0
Change [LC]			18,824	(77,577)	58,753

IE133. The hedging relationship between the fixed rate FX liability and the cross-currency interest rate swap starts at the beginning of Period 1 (i.e., t_0) and remains in place when the hedging relationship for the second level relationship starts at the end of Period 1, i.e., the first level relationship continues as a separate hedging relationship.

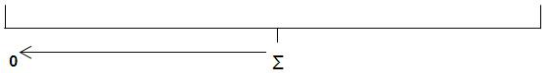
IE134. The cash flow variability of the aggregated exposure is calculated as follows:

(a) At the point in time from which the cash flow variability of the aggregated exposure is hedged (i.e., the start of the second level relationship at the end of Period 1), all cash flows expected on the fixed rate FX liability and the cross-currency interest rate swap over the hedged term (i.e., until the end of Period 4) are mapped out and equated to a single blended fixed coupon rate so that the total present value (in LC) is nil. This calculation establishes the single blended fixed coupon rate (reference rate) that is used at subsequent dates as the reference point to measure the cash flow variability of the aggregated exposure since the start of the hedging relationship. This calculation is illustrated in the following table:

Example 17—Cash Flow Variability of the Aggregated Exposure (Calibration)

		Variability in Cash Flows of the Aggregated Exposure							
		FX liability		CCIRS FC leg		CCIRS LC leg		Calibration	PV
		CF(s)	PV	CF(s)	PV	CF(s)	PV	1,200,000 5.6963 percent 4 Frequency	Nominal Rate
		[FC]	[FC]	[FC]	[FC]	[LC]	[LC]	[LC]	[LC]
Period 1	Time								
	t_0								
	t_1								
	t_2								
	t_3								
	t_4								
Period 2	t_5	0	0	0	0	(14,771)	(14,591)	17,089	16,881
	t_6	(20,426)	(19,977)	20,246	19,801	(15,271)	(14,896)	17,089	16,669
	t_7	0	0	0	0	(16,076)	(15,473)	17,089	16,449
	t_8	(20,426)	(19,543)	20,582	19,692	(16,241)	(15,424)	17,089	16,229
Period 3	t_9	0	0	0	0	(17,060)	(15,974)	17,089	16,002
	t_{10}	(20,426)	(19,148)	20,358	19,084	(17,182)	(15,862)	17,089	15,776
	t_{11}	0	0	0	0	(17,359)	(15,797)	17,089	15,551
	t_{12}	(20,426)	(18,769)	20,582	18,912	(17,778)	(15,942)	17,089	15,324
Period 4	t_{13}	0	0	0	0	(18,188)	(16,066)	17,089	15,095
	t_{14}	(20,426)	(18,391)	20,246	18,229	(18,502)	(16,095)	17,089	14,866
	t_{15}	0	0	0	0	(18,646)	(15,972)	17,089	14,638
	t_{16}	(1,020,426)	(899,695)	1,020,582	899,832	(1,218,767)	(1,027,908)	1,217,089	1,026,493
Totals			(995,522)		995,550		(1,200,000)		1,199,971
Totals in LC			(1,045,298)		1,045,327		(1,200,000)		1,199,971

PV of all CF(s) [LC]



The nominal amount that is used for the calibration of the reference rate is the same as the nominal amount of aggregated exposure that creates the variable cash flows in LC (LC1,200,000), which coincides with the nominal amount of the cross-currency interest rate swap for the variable rate leg in LC. This results in a reference rate of 5.6963 per cent (determined by iteration so that the present value of all cash flows in total is nil).

(b) At subsequent dates, the cash flow variability of the aggregated exposure is determined by comparison to the reference point established at the end of Period 1. For that purpose, all remaining cash flows expected on the fixed rate FX liability and the cross-currency interest rate swap over the remainder of the hedged term (i.e., from the effectiveness measurement date until the end of Period 4) are updated (as applicable) and then discounted. Also, the reference rate of 5.6963 per cent is applied to the nominal amount that was used for the calibration of that rate at the end of Period 1 (LC1,200,000) in order to generate a set of cash flows over the remainder of the hedged term that is then also discounted. The total of all those present values represents the cash flow variability of the aggregated exposure. This calculation is illustrated in the following table for the end of Period 2:

Example 17—Cash Flow Variability of the Aggregated Exposure (at the End of Period 2)

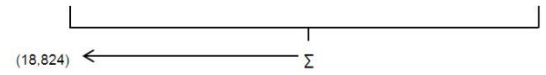
		Variability in Cash Flows of the Aggregated Exposure							
		FX liability		CCIRS FC leg		CCIRS LC leg		Calibration	PV
		CF(s)	PV	CF(s)	PV	CF(s)	PV	1,200,000	Nominal 5.6963 percent Rate 4 Frequency
		[FC]	[FC]	[FC]	[FC]	[LC]	[LC]	[LC]	[LC]
	Time								
Period 1	t_0								
	t_1								
	t_2								
	t_3								
	t_4								
Period 2	t_5	0	0	0	0	0	0	0	0
	t_6	0	0	0	0	0	0	0	0
	t_7	0	0	0	0	0	0	0	0
	t_8	0	0	0	0	0	0	0	0
Period 3	t_9	0	0	0	0	(18,120)	(17,850)	17,089	16,835
	t_{10}	(20,426)	(20,173)	20,358	20,106	(18,360)	(17,814)	17,089	16,581
	t_{11}	0	0	0	0	(18,683)	(17,850)	17,089	16,327
	t_{12}	(20,426)	(19,965)	20,582	20,117	(19,203)	(18,058)	17,089	16,070
Period 4	t_{13}	0	0	0	0	(19,718)	(18,243)	17,089	15,810
	t_{14}	(20,426)	(19,726)	20,246	19,553	(20,279)	(18,449)	17,089	15,547
	t_{15}	0	0	0	0	(21,014)	(18,789)	17,089	15,280

Example 17—Cash Flow Variability of the Aggregated Exposure (at the End of Period 2)

Variability in Cash Flows of the Aggregated Exposure

	FX liability		CCIRS FC leg		CCIRS LC leg		Calibration	PV
	CF(s)	PV	CF(s)	PV	CF(s)	PV	1,200,000	Nominal
							5.6963 percent	Rate 4
								Frequency
	[FC]	[FC]	[FC]	[FC]	[LC]	[LC]	[LC]	[LC]
t_{16}	(1,020,426)	(971,144)	1,020,582	971,292	(1,221,991)	(1,072,947)	1,217,089	1,068,643
Totals		(1,031,008)		1,031,067		(1,200,000)		1,181,092
Totals in LC		(1,464,031)		1,464,116		(1,200,000)		1,181,092

PV of all CF(s) [LC]



The changes in interest rates and the exchange rate result in a change of the cash flow variability of the aggregated exposure between the end of Period 1 and the end of Period 2 that has a present value of LC-18,824.[28]

IE135. Using the present value of the hedged item and the fair value of the hedging instrument, the cash flow hedge reserve and the hedge ineffectiveness are then determined (see paragraph 140 of IPSAS 41).

IE136. The following table shows the effect on State Government B's statement of financial performance and its statement of financial position (for the sake of transparency some line items[29] are disaggregated on the face of the statements by the two hedging relationships, i.e., for the fair value hedge of the fixed rate FX liability and the cash flow hedge of the aggregated exposure):[30]

[28] This is the amount that is included in the table with the overview of the calculations (see paragraph IE132) as the present value of the cash flow variability of the aggregated exposure at the end of Period 2.

[29] The line items used in this example are a possible presentation. Different presentation formats using different line items (including line items that include the amounts shown here) are also possible (IPSAS 30 sets out disclosure requirements for hedge accounting that include disclosures about hedge ineffectiveness, the carrying amount of hedging instruments and the cash flow hedge reserve).

[30] For Period 4 the values in the table with the overview of the calculations (see paragraph IE132) differ from those in the following table. For Periods 1 to 3 the 'dirty' values (i.e., including interest accruals) equal the 'clean' values (i.e., excluding interest accruals) because the period end is a settlement date for all legs of the derivatives and the fixed rate FX liability. At the end of Period 4 the table with the overview of the calculations uses clean values in order to calculate the value changes consistently over time. For the following table the dirty values are presented, i.e., the maturity amounts including accrued interest immediately before the instruments are settled (this is for illustrative purposes as otherwise all carrying amounts other than cash and accumulated surplus or deficit would be nil).

Example 17—Overview of Effect on Statements of Financial Performance and Financial Position *[All amounts in LC]*

	t_0	Period 1	Period 2	Period 3	Period 4
Statement of financial performance					
Interest expense					
FX liability		45,958	50,452	59,848	58,827
FVH adjustment		(12,731)	11,941	14,385	(49,439)
		33,227	62,393	74,233	9,388
Reclassifications (CFH)			5,990	(5,863)	58,982
Total interest expense		33,227	68,383	68,370	68,370
Other gains/losses					
Change in fair value of the CCIRS		154,673	(418,788)	(91,437)	185,553
FVH adjustment (FX liability)		(154,702)	418,733	91,560	(185,591)
Hedge ineffectiveness		0	(72)	(54)	(19)
Total other gains/losses		(29)	(127)	68	(57)
Surplus or deficit		33,198	68,255	68,438	68,313
Statement of changes in net assets/equity					
Net assets/equity					
Effective CFH gain/loss			(12,834)	71,713	229
Reclassifications			(5,990)	5,863	(58,982)
Total net assets/equity			(18,842)	77,577	(58,753)
Statement of financial position					
FX liability	(1,200,000)	(1,045,298)	(1,464,031)	(1,555,591)	(1,397,984)
CCIRS	0	(154,673)	264,116	355,553	194,141
IRS		0	18,896	(58,767)	(13,004)
Cash	1,200,000	1,166,773	1,098,390	1,030,160	978,641
Net assets	0	(33,198)	(82,630)	(228,645)	(238,205)

Example 17—Overview of Effect on Statements of Financial Performance and Financial Position *[All amounts in LC]*

	t_0	Period 1	Period 2	Period 3	Period 4
Net Assets/equity					
Net assets/equity		0	(18,824)	58,753	0
Accumulated surplus or deficit	0	33,198	101,454	169,892	238,205
Total net assets/equity	0	33,198	82,630	228,645	238,205

IE137. The total interest expense in surplus or deficit reflects State Government B's interest expense that results from its risk management strategy:

(a) In Period 1 the risk management strategy results in interest expense reflecting variable interest rates in LC after taking into account the effect of the cross-currency interest rate swap, including a difference between the cash flows on the fixed rate FX liability and the fixed leg of the cross-currency interest rate swap that were settled during Period 1 (this means the interest expense does not exactly equal the variable interest expense that would arise in LC on a borrowing of LC1,200,000). There is also some hedge ineffectiveness that results from a difference in the changes in value for the fixed rate FX liability (as represented by the fair value hedge adjustment) and the cross-currency interest rate swap.

(b) For Periods 2 to 4 the risk management strategy results in interest expense that reflects, after taking into account the effect of the interest rate swap entered into at the end of Period 1, fixed interest rates in LC (i.e., locking in a single blended fixed coupon rate for a three-period term based on the interest rate environment at the end of Period 1). However, State Government B's interest expense is affected by the hedge ineffectiveness that arises on its hedging relationships. In Period 2 the interest expense is slightly higher than the fixed rate payments locked in with the interest rate swap because the variable payments received under the interest rate swap are less than the total of the cash flows resulting from the aggregated exposure.[31] In Periods 3 and 4 the interest expense is equal to the locked in rate because the variable payments received under the swap are more than the total of the cash flows resulting from the aggregated exposure.[32]

Example 18—Combined Interest Rate Risk and Foreign Currency Risk Hedge (Cash Flow Hedge/Fair Value Hedge Combination)

Fact Pattern

IE138. State Government C wants to hedge a variable rate liability that is denominated in Foreign Currency (FC). The liability has a term of four periods from the start of Period 1 to the end of Period 4. State Government C's functional currency is its Local Currency (LC). State Government C has the following risk exposures:

[31] In other words, the cash flow variability of the interest rate swap was lower than, and therefore did not fully offset, the cash flow variability of the aggregated exposure as a whole (sometimes called an 'underhedge' situation). In those situations the cash flow hedge does not contribute to the hedge ineffectiveness that is recognized in surplus or deficit because the hedge ineffectiveness is not recognized (see paragraph 140 of IPSAS 41). The hedge ineffectiveness arising on the fair value hedge affects surplus or deficit in all periods.

[32] In other words, the cash flow variability of the interest rate swap was higher than, and therefore more than fully offset, the cash flow variability of the aggregated exposure as a whole (sometimes called an 'overhedge' situation). In those situations the cash flow hedge contributes to the hedge ineffectiveness that is recognized in surplus or deficit (see paragraph 140 of IPSAS 41). The hedge ineffectiveness arising on the fair value hedge affects surplus or deficit in all periods.

(a) Cash flow interest rate risk and FX risk: the changes in cash flows of the variable rate liability attributable to interest rate changes, measured in LC.

(b) Fair value interest rate risk: the exposure that arises as a result of swapping the combined cash flow interest rate risk and FX risk exposure associated with the variable rate liability (see (a) above) into a fixed rate exposure in LC in accordance with State Government C's risk management strategy for FC denominated variable rate liabilities (see paragraph 139(a) below).

IE139. State Government C hedges its risk exposures using the following risk management strategy:

(a) State Government C uses cross-currency interest rate swaps to swap its FC denominated variable rate liabilities into a fixed rate exposure in LC. State Government C hedges its FC denominated liabilities (including the interest) for their entire life. Consequently, State Government C enters into a cross-currency interest rate swap at the same time as it issues an FC denominated liability. Under the cross-currency interest rate swap State Government C receives variable interest in FC (used to pay the interest on the liability) and pays fixed interest in LC.

(b) State Government C considers the cash flows on a hedged liability and on the related cross-currency interest rate swap as one aggregated fixed rate exposure in LC. From time to time, in accordance with its risk management strategy for fixed rate interest rate risk (in LC), State Government C decides to link its interest payments to current variable interest rate levels and hence swaps its aggregated fixed rate exposure in LC into a variable rate exposure in LC. Consequently, State Government C uses interest rate swaps (denominated entirely in LC) under which it receives fixed interest (used to pay the interest on the pay leg of the cross-currency interest rate swap) and pays variable interest.

IE140. The following table sets out the parameters used for Example 18:

Example 18—Parameter Overview

	t_0	Period 1	Period 2	Period 3	Period 4
FX spot rate [LC/FC]	1.2	1.05	1.42	1.51	1.37
Interest curves (vertical presentation of rates for each quarter of a period on a p.a. basis)					
LC	2.50%	1.00%	3.88%	0.34%	[N/A]
	2.75%	1.21%	4.12%	0.49%	
	2.91%	1.39%	4.22%	0.94%	
	3.02%	1.58%	5.11%	1.36%	
	2.98%	1.77%	5.39%		
	3.05%	1.93%	5.43%		
	3.11%	2.09%	5.50%		
	3.15%	2.16%	5.64%		
	3.11%	2.22%			

Example 18—Parameter Overview

	t_0	Period 1	Period 2	Period 3	Period 4
	3.14%	2.28%			
	3.27%	2.30%			
	3.21%	2.31%			
	3.21%				
	3.25%				
	3.29%				
	3.34%				
FC	3.74%	4.49%	2.82%	0.70%	[N/A]
	4.04%	4.61%	2.24%	0.79%	
	4.23%	4.63%	2.00%	1.14%	
	4.28%	4.34%	2.18%	1.56%	
	4.20%	4.21%	2.34%		
	4.17%	4.13%	2.53%		
	4.27%	4.07%	2.82%		
	4.14%	4.09%	3.13%		
	4.10%	4.17%			
	4.11%	4.13%			
	4.11%	4.24%			
	4.13%	4.34%			
	4.14%				
	4.06%				
	4.12%				
	4.19%				

Accounting Mechanics

IE141. State Government C designates the following hedging relationships:[33]

(a) As a cash flow hedge, a hedging relationship for cash flow interest rate risk and FX risk between the FC denominated variable rate liability (variable rate FX liability) as the hedged item and a cross-currency interest rate swap as the hedging instrument (the 'first level relationship'). This hedging relationship is designated at the beginning of Period 1 (i.e., t_0) with a term to the end of Period 4.

(b) As a fair value hedge, a hedging relationship between the aggregated exposure as the hedged item and an interest rate swap as the hedging instrument (the 'second level relationship'). This hedging relationship is designated at the end of Period 1, when State Government C decides to link its interest payments to current variable interest rate levels and hence swaps its aggregated fixed rate exposure in LC into a variable rate exposure in LC, with a term to the end of Period 4. The aggregated exposure that is designated as the hedged item represents, in LC, the change in value that is the effect of changes in the value of the combined cash flows of the two items designated in the cash flow hedge of the cash flow interest rate risk and FX risk (see (a) above), compared to the interest rates at the end of Period 1 (i.e., the time of designation of the hedging relationship between the aggregated exposure and the interest rate swap).

IE142. The following table[34] sets out the overview of the fair values of the derivatives, the changes in the value of the hedged items and the calculation of the cash flow hedge reserve.[35] In this example no hedge ineffectiveness arises on either hedging relationship because of the assumptions made.[36]

Example 18—Calculations

	t_0	Period 1	Period 2	Period 3	Period 4
Variable rate FX liability					
Fair value [FC]	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Fair value [LC]	(1,200,000)	(1,050,000)	(1,420,000)	(1,510,000)	(1,370,000)
Change in fair value [LC]		150,000	(370,000)	(90,000)	140,000
PV of change in variable CF(s) [LC]	0	192,310	(260,346)	(282,979)	(170,000)
Change in PV [LC]		192,310	(452,656)	(22,633)	112,979

[33] This example assumes that all qualifying criteria for hedge accounting are met (see paragraph 129 of IPSAS 41). The following description of the designation is solely for the purpose of understanding this example (i.e., it is not an example of the complete formal documentation required in accordance with paragraph 129(b) of IPSAS 41).

[34] Tables in this example use the following acronyms: 'CCIRS' for cross-currency interest rate swap, 'CF(s)' for cash flow(s), 'CFH' for cash flow hedge, 'CFHR' for cash flow hedge reserve, 'FVH' for fair value hedge, 'IRS' for interest rate swap and 'PV' for present value.

[35] In the following table for the calculations all amounts (including the calculations for accounting purposes of amounts for assets, liabilities and net assets/equity) are in the format of positive (plus) and negative (minus) numbers (e.g., an amount in the cash flow hedge reserve that is a negative number is a loss).

[36] Those assumptions have been made for didactical reasons, in order to better focus on illustrating the accounting mechanics in a cash flow hedge/fair value hedge combination. The measurement and recognition of hedge ineffectiveness has already been demonstrated in Example 16 and Example 17. However, in reality such hedges are typically not perfectly effective because hedge ineffectiveness can result from various factors, for example credit risk, differences in the day count method or, depending on whether it is included in the designation of the hedging instrument, the charge for exchanging different currencies that is included in cross-currency interest rate swaps (commonly referred to as the 'currency basis').

Example 18—Calculations					
	t_0	**Period 1**	**Period 2**	**Period 3**	**Period 4**
CCIRS (receive variable FC/pay fixed LC)					
Fair value [LC]	0	(192,310)	260,346	282,979	170,000
Change in fair value [LC]		(192,310)	452,656	22,633	(112,979)
CFHR					
Opening balance	0	0	(42,310)	(28,207)	(14,103)
Reclassification FX risk		153,008	(378,220)	(91,030)	140,731
Reclassification (current period CF)		(8,656)	(18,410)	2,939	21,431
Effective CFH gain/loss		(186,662)	(479,286)	20,724	(135,141)
Reclassification for interest rate risk		0	(82,656)	67,367	(27,021)
Amortization of CFHR		0	14,103	14,103	14,103
Ending balance		(42,103)	(28,207)	(14,103)	0
IRS (receive fixed/pay variable)					
Fair value [LC]		0	(82,656)	(15,289)	(42,310)
Change in fair value			(82,656)	67,367	(27,021)
Change in present value of the aggregated exposure					
Present value [LC]		(1,242,310)	(1,159,654)	(1,227,021)	(1,200,000)
Change in present value [LC]			82,656	(67,367)	27,021

IE143. The hedging relationship between the variable rate FX liability and the cross-currency interest rate swap starts at the beginning of Period 1 (i.e., t0) and remains in place when the hedging relationship for the second level relationship starts at the end of Period 1, i.e., the first level relationship continues as a separate hedging relationship. However, the hedge accounting for the first level relationship is affected by the start of hedge accounting for the second level relationship at the end of Period 1. The fair value hedge for the second level relationship affects the timing of the reclassification to surplus or deficit of amounts from the cash flow hedge reserve for the first level relationship:

(a) The fair value interest rate risk that is hedged by the fair value hedge is included in the amount that is recognized in net assets/ equity as a result of the cash flow hedge for the first level hedging relationship (i.e., the gain or loss on the cross-currency interest rate swap that is determined to be an effective hedge).[37] This means that from the end of Period 1 the part of the effective cash flow hedging gain or

[37] As a consequence of hedging its exposure to cash flow interest rate risk by entering into the cross-currency interest rate swap that changed the cash flow interest rate risk of the variable rate FX liability into a fixed rate exposure (in LC), State Government C in effect assumed an exposure

loss that represents the fair value interest rate risk (in LC), and is recognized in net assets/equity in a first step, is in a second step immediately (i.e., in the same period) transferred from the cash flow hedge reserve to surplus or deficit. That reclassification adjustment offsets the gain or loss on the interest rate swap that is recognized in surplus or deficit.[38] In the context of accounting for the aggregated exposure as the hedged item, that reclassification adjustment is the equivalent of a fair value hedge adjustment because in contrast to a hedged item that is a fixed rate debt instrument (in LC) at amortized cost, the aggregated exposure is already remeasured for changes regarding the hedged risk but the resulting gain or loss is recognized in net assets/equity because of applying cash flow hedge accounting for the first level relationship. Consequently, applying fair value hedge accounting with the aggregated exposure as the hedged item does not result in changing the hedged item's measurement but instead affects where the hedging gains and losses are recognized (i.e., reclassification from the cash flow hedge reserve to surplus or deficit).

(b) The amount in the cash flow hedge reserve at the end of Period 1 (LC42,310) is amortized over the remaining life of the cash flow hedge for the first level relationship (i.e., over Periods 2 to 4).[39]

IE144. The change in value of the aggregated exposure is calculated as follows:

(a) At the point in time from which the change in value of the aggregated exposure is hedged (i.e., the start of the second level relationship at the end of Period 1), all cash flows expected on the variable rate FX liability and the cross-currency interest rate swap over the hedged term (i.e., until the end of Period 4) are mapped out and their combined present value, in LC, is calculated. This calculation establishes the present value that is used at subsequent dates as the reference point to measure the change in present value of the aggregated exposure since the start of the hedging relationship. This calculation is illustrated in the following table:

Example 18—Present Value of the Aggregated Exposure (Starting Point)

		Present Value of the Aggregated Exposure					
		FX liability		**CCIRS FC leg**		**CCIRS LC leg**	
		CF(s) [FC]	**PV [FC]**	**CF(s) [FC]**	**PV [FC]**	**CF(s) [LC]**	**PV [LC]**
	Time						
	t_0						
Period 1	t_1						
	t_2						
	t_3						
	t_4						

to fair value interest rate risk (see paragraph IE139).

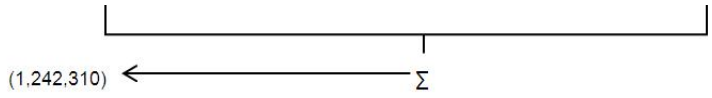
[38] In the table with the overview of the calculations (see paragraph IE142) this reclassification adjustment is the line item "Reclassification for interest rate risk" in the reconciliation of the cash flow hedge reserve (e.g., at the end of Period 2 a reclassification of a gain of LC82,656 from the cash flow hedge reserve to surplus or deficit—see paragraph IE144 for how that amount is calculated).

[39] In the table with the overview of the calculations (see paragraph IE142) this amortization results in a periodic reclassification adjustment of LC14,103 that is included in the line item "Amortization of CFHR" in the reconciliation of the cash flow hedge reserve.

Example 18—Present Value of the Aggregated Exposure (Starting Point)

		Present Value of the Aggregated Exposure					
		FX liability		CCIRS FC leg		CCIRS LC leg	
		CF(s) [FC]	PV [FC]	CF(s) [FC]	PV [FC]	CF(s) [LC]	PV [LC]
Period 2	t_5	(11,039)	(10,918)	11,039	10,918	(9,117)	(9,094)
	t_6	(11,331)	(11,082)	11,331	11,082	(9,117)	(9,067)
	t_7	(11,375)	(11,000)	11,375	11,000	(9,117)	(9,035)
	t_8	(10,689)	(10,227)	10,689	10,227	(9,117)	(9,000)
Period 3	t_9	(10,375)	(9,824)	10,375	9,824	(9,117)	(8,961)
	t_{10}	(10,164)	(9,528)	10,164	9,528	(9,117)	(8,918)
	t_{11}	(10,028)	(9,307)	10,028	9,307	(9,117)	(8,872)
	t_{12}	(10,072)	(9,255)	10,072	9,255	(9,117)	(8,825)
Period 4	t_{13}	(10,256)	(9,328)	10,256	9,328	(9,117)	(8,776)
	t_{14}	(10,159)	(9,147)	10,159	9,147	(9,117)	(8,727)
	t_{15}	(10,426)	(9,290)	10,426	9,290	(9,117)	(8,678)
	t_{16}	(1,010,670)	(891,093)	1,010,670	891,093	(1,209,117)	(1,144,358)
	Totals		(1,000,000)		1,000,000		(1,242,310)
	Totals in LC		(1,050,000)		1,050,000		(1,242,310)

PV of aggregated exposure [LC]



The present value of all cash flows expected on the variable rate FX liability and the cross-currency interest rate swap over the hedged term at the end of Period 1 is LC-1,242,310.[40]

(b) At subsequent dates, the present value of the aggregated exposure is determined in the same way as at the end of Period 1 but for the remainder of the hedged term. For that purpose, all remaining cash flows expected on the variable rate FX liability and the cross-currency interest rate swap over the remainder of the hedged term (i.e., from the effectiveness measurement date until the end of Period 4) are updated (as applicable) and then discounted. The total of those present values represents the

[40] In this example no hedge ineffectiveness arises on either hedging relationship because of the assumptions made (see paragraph IE142). Consequently, the absolute values of the variable rate FX liability and the FC denominated leg of the cross-currency interest rate are equal (but with opposite signs). In situations in which hedge ineffectiveness arises, those absolute values would not be equal so that the remaining net amount would affect the present value of the aggregated exposure.

present value of the aggregated exposure. This calculation is illustrated in the following table for the end of Period 2:

Example 18—Present Value of the Aggregated Exposure (at the End of Period 2)

		Present Value of the Aggregated Exposure					
		FX liability		CCIRS FC leg		CCIRS LC leg	
		CF(s) [FC]	PV [FC]	CF(s) [FC]	PV [FC]	CF(s) [LC]	PV [LC]
	Time						
	t_0						
Period 1	t_1						
	t_2						
	t_3						
	t_4						
Period 2	t_5	0	0	0	0	0	0
	t_6	0	0	0	0	0	0
	t_7	0	0	0	0	0	0
	t_8	0	0	0	0	0	0
Period 3	t_9	(6,969)	(6,921)	6,969	6,921	(9,117)	(9,030)
	t_{10}	(5,544)	(5,475)	5,544	5,475	(9,117)	(8,939)
	t_{11}	(4,971)	(4,885)	4,971	4,885	(9,117)	(8,847)
	t_{12}	(5,401)	(5,280)	5,401	5,280	(9,117)	(8,738)
Period 4	t_{13}	(5,796)	(5,632)	5,796	5,632	(9,117)	(8,624)
	t_{14}	(6,277)	(6,062)	6,277	6,062	(9,117)	(8,511)
	t_{15}	(6,975)	(6,689)	6,975	6,689	(9,117)	(8,397)
	t_{16}	(1,007,725)	(959,056)	1,007,725	956,056	(1,209,117)	(1,098,568)
	Totals		(1,000,000)		1,000,000		(1,159,654)
	Totals in LC		(1,420,000)		1,420,000		(1,159,654)

PV of aggregated exposure [LC]

(1,159,654) $\leftarrow \sum^{I}$

The changes in interest rates and the exchange rate result in a present value of the aggregated exposure at the end of Period 2 of LC-1,159,654. Consequently, the change in the present value of the aggregated exposure between the end of Period 1 and the end of Period 2 is a gain of LC82,656.[41]

IE145. Using the change in present value of the hedged item (i.e., the aggregated exposure) and the fair value of the hedging instrument (i.e., the interest rate swap), the related reclassifications from the cash flow hedge reserve to surplus or deficit (reclassification adjustments) are then determined.

IE146. The following table shows the effect on State Government C's statement of financial performance and its statement of financial position (for the sake of transparency some line items[42] are disaggregated on the face of the statements by the two hedging relationships, i.e., for the cash flow hedge of the variable rate FX liability and the fair value hedge of the aggregated exposure):[43]

Example 18—Overview of Effect on Statements of Financial Performance and Financial Position *[All amounts in LC]*

	t_0	Period 1	Period 2	Period 3	Period 4
Statement of financial performance					
Interest expense					
FX liability		45,122	54,876	33,527	15,035
FVH adjustment		0	(20,478)	16,517	(26,781)
		45,122	34,398	50,045	(11,746)
Reclassifications (CFH)		(8,656)	(18,410)	2,939	21,431
		36,466	15,989	52,983	9,685
Amortization of CFHR		0	14,103	14,103	14,103
Total interest expense		36,466	30,092	67,087	23,788
Other gains/losses					
IRS		0	82,656	(67,367)	27,021
FX gain/loss (liability)		(150,000)	370,000	90,000	(140,000)
FX gain/loss (interest)		(3,008)	8,220	1,030	(731)

41 This is the amount that is included in the table with the overview of the calculations (see paragraph IE142) as the change in present value of the aggregated exposure at the end of Period 2.

42 The line items used in this example are a possible presentation. Different presentation formats using different line items (including line items that include the amounts shown here) are also possible (IPSAS 30 sets out disclosure requirements for hedge accounting that include disclosures about hedge ineffectiveness, the carrying amount of hedging instruments and the cash flow hedge reserve).

43 For Period 4 the values in the table with the overview of the calculations (see paragraph IE142) differ from those in the following table. For Periods 1 to 3 the 'dirty' values (i.e., including interest accruals) equal the 'clean' values (i.e., excluding interest accruals) because the period end is a settlement date for all legs of the derivatives and the fixed rate FX liability. At the end of Period 4 the table with the overview of the calculations uses clean values in order to calculate the value changes consistently over time. For the following table the dirty values are presented, i.e., the maturity amounts including accrued interest immediately before the instruments are settled (this is for illustrative purposes as otherwise all carrying amounts other than cash and accumulated surplus or deficit would be nil).

Example 18—Overview of Effect on Statements of Financial Performance and Financial Position *[All amounts in LC]*

	t_0	Period 1	Period 2	Period 3	Period 4
Reclassification for FX risk		153,008	(378,220)	(91,030)	140,731
Reclassification for interest rate risk		0	(82,656)	67,367	(27,021)
Total other gains/losses		0	0	0	0
Surplus or deficit		36,466	30,092	67,087	23,788
Statement of changes in net assets/equity					
Net assets/equity					
Effective gain/loss		186,662	(479,286)	(20,724)	135,141
Reclassification (current period CF)		8,656	18,410	(2,939)	(21,431)
Reclassification for FX risk		(153,008)	378,220	91,030	(140,731)
Reclassification for interest rate risk		0	82,656	(67,367)	27,021
Amortization of CFHR		0	(14,103)	(14,103)	(14,103)
Total net assets/equity		42,310	(14,103)	(14,103)	(14,103)
Statement of financial position					
FX liability	(1,200,000)	(1,050,000)	(1,420,000)	(1,510,000)	(1,375,306)
CCIRS	0	(192,310)	260,346	282,979	166,190
IRS		0	(82,656)	(15,289)	(37,392)
Cash	1,200,000	1,163,534	1,147,545	1,094,562	1,089,076
Net assets	0	(78,776)	(94,765)	(147,748)	(157,433)
Net assets/equity	0	42,310	28,207	14,103	0
Accumulated surplus or deficit	0	36,466	66,558	133,645	157,433
Total net assets/equity	0	78,776	94,765	147,748	157,433

IE147. The total interest expense in surplus or deficit reflects State Government C's interest expense that results from its risk management strategy:

(a) In Period 1 the risk management strategy results in interest expense reflecting fixed interest rates in LC after taking into account the effect of the cross-currency interest rate swap.

(b) For Periods 2 to 4, after taking into account the effect of the interest rate swap entered into at the end of Period 1, the risk management strategy results in interest expense that changes with variable interest rates in LC (i.e., the variable interest rate prevailing in each period). However, the amount of the total interest expense is not equal to the amount of the variable rate interest because of the amortization of the amount that was in the cash flow hedge reserve for the first level relationship at the end of Period 1.[44]

Foreign Operations (Appendix B)

IE148. This example illustrates the application of paragraphs B12, B13, B14 and B15 of Appendix B in connection with the reclassification adjustment on the disposal of a foreign operation.

Example 19—Disposal of a Foreign Operation

Background

IE149. This example assumes the economic entity structure set out in paragraph B16 and that Controlling Entity D used a USD borrowing in Controlled Entity A to hedge the EUR/USD risk of the net investment in Controlled Entity C in Controlling Entity D's consolidated financial statements. Controlling Entity D uses the step-by-step method of consolidation. Assume the hedge was fully effective and the full USD/EUR accumulated change in the value of the hedging instrument before disposal of Controlled Entity C is €24 million (gain). This is matched exactly by the fall in value of the net investment in Controlled Entity C, when measured against the functional currency of Controlling Entity D (euro).

IE150. If the direct method of consolidation is used, the fall in the value of Controlling Entity D's net investment in Controlled Entity C of €24 million would be reflected totally in the foreign currency translation reserve relating to Controlled Entity C in Controlling Entity D's consolidated financial statements. However, because Controlling Entity D uses the step-by-step method, this fall in the net investment value in Controlled Entity C of €24 million would be reflected both in Controlled Entity B's foreign currency translation reserve relating to Controlled Entity C and in Controlling Entity D's foreign currency translation reserve relating to Controlled Entity B.

IE151. The aggregate amount recognized in the foreign currency translation reserve in respect of Controlled Entities B and C is not affected by the consolidation method. Assume that using the direct method of consolidation, the foreign currency translation reserves for Controlled Entities B and C in Controlling Entity D's consolidated financial statements are €62 million gain and €24 million loss respectively; using the step-by-step method of consolidation those amounts are €49 million gain and €11 million loss respectively.

Reclassification

IE152. When the investment in Controlled Entity C is disposed of, IPSAS 41 requires the full €24 million gain on the hedging instrument to be reclassified in surplus or deficit. Using the step-by-step method, the amount to be reclassified to surplus or deficit in respect of the net investment in Controlled Entity C would be only €11 million loss. Controlling Entity D could adjust the foreign currency translation reserves of both Controlled Entities B and C by €13 million in order to match the amounts reclassified in respect of the hedging instrument and the net investment as would have been the case if the direct method of consolidation had been used, if that was its accounting policy. An entity that had not hedged its net investment could make the same reclassification.

[44] See paragraph IE143(b). That amortization becomes an expense that has an effect like a spread on the variable interest rate.

Concessionary Loans (Paragraphs AG118–AG126)

Example 20—Receipt of a Concessionary Loan (Interest Concession)

IE153. A local authority receives loan funding to the value of CU5 million from an international development agency to build primary healthcare clinics over a period of 5 years. The agreement stipulates that the loan is to be repaid over the 5 year period as follows:

Year 1: no principal repayments

Year 2: 10 percent of the principal

Year 3: 20 percent of the principal

Year 4: 30 percent of the principal

Year 5: 40 percent of the principal

Interest is paid annually in arrears, at a rate of 5 percent per annum on the outstanding balance of the loan. A market-related rate of interest for a similar transaction is 10 percent.

IE154. The local authority has received a concessionary loan of CU5 million, which will be repaid at 5 percent below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market-related rate of interest, is recognized in accordance with IPSAS 47, *Revenue*.

IE155. The journal entries to account for the concessionary loan are as follows:

1. On initial recognition, the entity recognizes the following:

Dr		Bank	5,000,000	
	Cr	Loan (refer to Table 2 below)		4,215,450
	Cr	Liability or revenue		784,550

Recognition of the receipt of the loan at fair value

IPSAS 47 is considered in recognizing either a liability or revenue for the off-market portion of the loan. Paragraph IE302 of that Standard provides journal entries for the recognition and measurement of the off-market portion of the loan deemed to be revenue.

2. Year 1: The entity recognizes the following:

Dr		Interest (refer to Table 3 below)	421,545	
	Cr	Loan		421,545

Recognition of interest using the effective interest method (CU4,215,450 × 10 percent)

Dr		Loan (refer to Table 1 below)	250,000	
	Cr	Bank		250,000

Recognition of interest paid on outstanding balance (CU5m × 5 percent)

3. Year 2: The entity recognizes the following:

Dr		Interest	438,700	

	Cr	Loan		438,700

Recognition of interest using the effective interest method (CU4,386,995 × 10 percent)

Dr		Loan	750,000	
	Cr	Bank		750,000

Recognition of interest and principal paid on outstanding balance (CU5m × 5 percent + CU500,000)

4. Year 3: The entity recognizes the following:

Dr		Interest	407,569	
	Cr	Loan		407,569

Recognition of interest using the effective interest method (CU4,075,695 × 10 percent)

Dr		Loan	1,225,000	
	Cr	Bank		1,225,000

Recognition of interest and principal paid on outstanding balance (CU4.5m × 5 percent + CU1m)

5. Year 4: The entity recognizes the following:

Dr		Interest	325,827	
	Cr	Loan		325,827

Recognition of interest using the effective interest method (CU 3,258,264 × 10 percent)

Dr		Loan	1,675,000	
	Cr	Bank		1,675,000

Recognition of interest and principal paid on outstanding balance (CU3.5m × 5 percent + CU1.5m)

6. Year 5: The entity recognizes the following:

Dr		Interest	190,909	
	Cr	Loan		190,909

Recognition of interest using the effective interest method (CU1,909,091 × 10 percent)

Dr		Loan	2,100,000	
	Cr	Bank		2,100,000

Recognition of interest and principal paid on outstanding balance (CU2m × 5 percent + CU2m)

Calculations:

Table 1: Amortization Schedule (Using Contractual Repayments at 5 percent Interest)

	Year 0 CU	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU
Principal	5,000,000	5,000,000	5,000,000	4,500,000	3,500,000	2,000,000
Interest	–	250,000	250,000	225,000	175,000	100,000
Payments	–	(250,000)	(750,000)	(1,225,000)	(1,675,000)	(2,100,000)
Balance	**5,000,000**	**5,000,000**	**4,500,000**	**3,500,000**	**2,000,000**	–

Table 2: Discounting Contractual Cash Flows (Based on a Market Rate of 10 percent)

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU
Principal balance	5,000,000	4,500,000	3,500,000	2,000,000	–
Interest payable	250,000	250,000	225,000	175,000	100,000
Total payments (principal and interest)	250,000	750,000	1,225,000	1,675,000	2,100,000
Present value of payments	227,272	619,835	920,360	1,144,048	1,303,935
Total present value of payments					4,215,450
Proceeds received					5,000,000
Less: Present value of outflows (fair value of loan on initial recognition)					4,215,450
Off-market portion of loan to be recognized as non-exchange revenue					784,550

Table 3: Calculation of Loan Balance and Interest Using the Effective Interest Method

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU
Principal	4,215,450	4,386,995	4,075,695	3,258,264	1,909,091
Interest accrual	421,545	438,700	407,569	325,827	190,909
Interest payments	(250,000)	(250,000)	(225,000)	(175,000)	(100,000)
Principal payments	–	(500,000)	(1,000,000)	(1,500,000)	(2,000,000)
Balance	4,386,995	4,075,695	3,258,264	1,909,091	–

Example 21—Payment of a Concessionary Loan (Principal Concession)[45]

IE156. The department of education makes low interest loans available to qualifying students with delayed repayment terms as a means of promoting post-secondary education.

IE157. The department advanced CU250 million to various students at the beginning of the financial year, with the following terms and conditions:

Principal to be repaid as follows:

Year 1 to 3: no principal repayments

Year 2: 30 percent principal to be repaid

Year 3: 30 percent principal to be repaid

Year 4: 30 percent principal to be repaid

The remaining principal balance (10 percent of CU250 million) outstanding at the end of year 6 is to be forgiven.

Interest is calculated at 11.5 percent interest on the outstanding loan balance, and is to be paid annually in arrears. Assume the market rate of interest for a similar loan is 11.5 percent.

Scenario 1: Amortized Cost

IE158. After assessing the substance of the concessionary loan, the department of education classifies the financial asset in accordance with paragraphs 39–44. Based on the facts in the example, the department of education classifies the financial assets as measured at amortized cost.

IE159. The aggregated journal entries to account for the concessionary loans when measured at amortized cost are as follows:

1. On initial recognition, the entity recognizes the following:

Dr	Loan		236,989,595	
Dr	Expense		13,010,405	
Cr	Bank			250,000,000

Recognition of the advance of the loans at fair value

Paragraph AG125(b) is considered in recognizing an expense for the off-market portion of the loan deemed to be a non-exchange expense.

2. Year 1: The entity recognizes the following

Dr	Loan		27,253,803	
Cr	Interest revenue			27,253,803

Interest accrual using the effective interest method (CU236,989,595 × 11.5 percent)

[45] For simplicity, this example excludes any considerations in relation to calculating expected credit losses.

Dr	Bank		28,750,000	
Cr	Loan			28,750,000

Interest payment of CU250m × 11.5 percent

3. Year 2: The entity recognizes the following:

Dr	Loan		27,081,741	
Cr	Interest revenue			27,081,741

Interest accrual using the effective interest method (CU235,493,398 × 11.5 percent)

Dr	Bank		28,750,000	
Cr	Loan			28,750,000

Interest payment of CU250m × 11.5 percent

4. Year 3: The entity recognizes the following:

Dr	Loan		26,889,891	
Cr	Interest revenue			26,889,891

Interest accrual using the effective interest method (CU233,825,139 × 11.5 percent)

Dr	Bank		28,750,000	
Cr	Loan			28,750,000

Interest payment of (CU250m × 11.5 percent)

5. Year 4: The entity recognizes the following:

Dr	Loan		26,675,979	
Cr	Interest revenue			26,675,979

Interest accrual using the effective interest method (CU231,965,030 × 11.5 percent)

Dr	Bank		103,750,000	
Cr	Loan			103,750,000

Recognition of interest and principal received on outstanding balance (CU250m × 11.5 percent + CU75m)

6. Year 5: The entity recognizes the following:

Dr	Loan	17,812,466	
Cr	Interest revenue		17,812,466

Interest accrual using the effective interest method (CU154,891,009 × 11.5 percent)

Dr	Bank	95,125,000	
Cr	Loan		95,125,000

Recognition of interest and principal received on outstanding balance (CU175m × 11.5 percent + CU75m)

7. Year 6: The entity recognizes the following:

Dr	Loan	8,921,525	
Cr	Interest revenue		8,921,525

Interest accrual using the effective interest method (CU77,578,475 × 11.5 percent)

Dr	Bank	86,500,000	
Cr	Loan		86,500,000

Recognition of interest and principal received on outstanding balance (CU100m × 11.5 percent + CU75m)

Scenario 2: Fair Value through Surplus/Deficit

IE160. In addition to the terms outlined in paragraph 157, the loans provide the department of education the ability to call the instrument at any time for an amount that does not substantially reflect payment of outstanding principal and interest. After assessing the substance of the concessionary loans, the department of education determines the classification of the financial asset in accordance with paragraphs 39–44. Because the call feature in this example precludes the cash flows of this instrument from being solely payments of principal and interest, the department of education concludes the financial assets are classified at fair value through surplus/deficit.

IE161. The aggregated journal entries to account for the concessionary loans when classified at fair value through surplus/deficit are as follows:

1. On initial recognition, the entity recognizes the following:

Dr	Loan	236,989,595	
Dr	Expense	13,010,405	

Cr	Bank		250,000,000

Recognition of the advance of the loans at fair value

Paragraph AG125(b) is considered in recognizing an expense for the off-market portion of the loan deemed to be a non-exchange expense.

2. Year 1: The entity recognizes the following

Dr	Loan	27,253,803	
Cr	Interest revenue		27,253,803

Interest accrual of CU236,989,595 × 11.5 percent

Dr	Bank	28,750,000	
Cr	Loan		28,750,000

Interest payment of CU250m × 11.5 percent

3. Year 2: The entity recognizes the following:

Dr	Loan	27,081,741	
Cr	Interest revenue		27,081,741

Interest accrual of CU235,493,398 × 11.5 percent

Dr	Bank	28,750,000	
Cr	Loan		28,750,000

Interest payment of CU250m × 11.5 percent

Dr	Fair value adjustment	2,766,221	
Cr	Loan		2,766,221

Fair value adjustment (CU231,058,918[46] – (CU235,493,398 + CU27,081,741 – CU28,750,000))

4. Year 3: The entity recognizes the following:

Dr	Loan	26,571,776	
Cr	Interest revenue		26,571,776

[46] See table 4 in this example for reference to fair values.

Interest accrual of CU231,058,918 × 11.5 percent

Dr		Bank	28,750,000	
	Cr	Loan		28,750,000

Interest payment of CU250m × 11.5 percent

Dr		Fair value adjustment	2,620,867	
	Cr	Loan		2,620,867

Fair value adjustment (CU226,259,827 – (CU231,058,918 + CU26,571,776 – CU28,750,000))

5. Year 4: The entity recognizes the following:

Dr		Loan	26,019,880	
	Cr	Interest revenue		26,019,880

Interest accrual of CU226,259,827 × 11.5 percent

Dr		Bank	103,750,000	
	Cr	Loan		103,750,000

Interest payment of CU250m × 11.5 percent + CU75m principal repaid

Dr		Loan	1,472,217	
	Cr	Fair value adjustment		1,472,217

Fair value adjustment (CU150,001,924 – (CU226,259,827 + CU26,019,880 – CU103,750,000))

6. Year 5: The entity recognizes the following:

Dr		Loan	17,250,221	
	Cr	Interest revenue		17,250,221

Interest accrual of CU150,001,924 × 11.5 percent

Dr		Bank	95,125,000	
	Cr	Loan		95,125,000

Interest payment of CU175m × 11.5 percent + CU75m principal repaid

Dr		Loan	3,750,048	
	Cr	Fair value adjustment		3,750,048

Fair value adjustment (CU75,877,193 – (CU150,001,924 + CU17,250,221 – CU95,125,000))

7. Year 6: The entity recognizes the following:

Dr		Loan	8,725,877	
	Cr	Interest revenue		8,725,877

Interest accrual of CU75,877,193 × 11.5 percent

Dr		Bank	86,500,000	
	Cr	Loan		86,500,000

Interest payment of CU100m × 11.5 percent + CU75m principal repaid

Dr		Loan	1,896,930	
	Cr	Fair value adjustment		1,896,930

Fair value adjustment (CU0 – (CU75,877,193 + CU8,725,877 – CU86,500,000))

Calculations:

Table 1: Amortization Schedule (Using Contractual Repayments at 11.5 percent Interest)

	Year 0 CU'000	Year 1 CU'000	Year 2 CU'000	Year 3 CU'000	Year 4 CU'000	Year 5 CU'000	Year 6 CU'000
Principal	250,000	250,000	250,000	250,000	250,000	175,000	100,000
Interest	–	28,750	28,750	28,750	28,750	20,125	11,500
Payments	–	(28,750)	(28,750)	(28,750)	(103,750)	(95,125)	(86,500)
Balance	**250,000**	**250,000**	**250,000**	**250,000**	**175,000**	**100,000**	**25,000**

Table 2: Discounting Contractual Cash Flows (Based on a Market Rate of 11.5 Percent)

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Year 6 CU
Principal balance	250,000,000	250,000,000	250,000,000	175,000,000	100,000,000	25,000,000
Interest receivable	28,750,000	28,750,000	28,750,000	28,750,000	20,125,000	11,500,000
Total receipts (principal and interest)	28,750,000	28,750,000	28,750,000	103,750,000	95,125,000	86,500,000

Present value of cash flows	25,784,753	23,125,339	20,740,215	67,125,670	55,197,618	45,016,000
Total present value of cash flows						236,989,595
Proceeds paid						250,000,000
Less: Present value of inflows (fair value of loan on initial recognition)						236,989,595
Off-market portion of loan to be recognized as expense						13,010,405

Table 3: Calculation of Loan Balance and Interest Using the Effective Interest Method

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Year 6 CU
Principal	236,989,595	235,493,398	233,825,139	231,965,030	154,891,009	77,578,475
Interest accrual	27,253,803	27,081,741	26,889,891	26,675,979	17,812,466	8,921,525
Interest	(28,750,000)	(28,750,000)	(28,750,000)	(28,750,000)	(20,125,000)	(11,500,000)
Principal receipts	-	-	-	(75,000,000)	(75,000,000)	(75,000,000)
Balance	235,493,398	233,825,139	231,965,030	154,891,009	77,578,475	–

Table 4: Fair Value of Loan

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Year 6 CU
Fair value	236,989,595	235,493,398	231,058,918	226,259,827	150,001,924	75,877,193
Market interest rate (beginning of year)	11.5 percent	11.5 percent	12 percent	13 percent	14 percent	14 percent
Market interest rate (end of year)	11.5 percent	12 percent	13 percent	14 percent	14 percent	14 percent
Interest accrual (11.5 percent)	27,253,803	27,081,741	26,571,776	26,019,880	17,250,221	8,725,877
Interest	(28,750,000)	(28,750,000)	(28,750,000)	(28,750,000)	(20,125,000)	(11,500,000)
Principal receipts	-	-	-	(75,000,000)	(75,000,000)	(75,000,000)
Fair value adjustment	-	(2,766,221)	(2,620,867)	1,472,217	3,750,048	1,896,930
Balance	235,493,398	231,058,918	226,259,827	150,001,924	75,877,193	–

Example 22—Payment of a Concessionary Loan (Loan Commitment)

IE162. Prior to the beginning of every wheat agricultural season, the department of agriculture makes low-interest loans available to qualifying farmers as a means of promoting the cultivation of wheat within the jurisdiction. These loans are available on demand by individual farmers at any time during the planting season and must be repaid prior to the subsequent planting season.

IE163. The department makes available CU100 million to various farmers at the beginning of the harvest season in 20x1. By the end of the harvest season the department has distributed all CU100 million with the following terms and conditions:

- Principal is to be repaid prior to the next harvest season.

- No interest is charged on the outstanding loan balance. Assume the market rate of interest for similar loans is 1.5 percent.

At the origination of the loan commitments, there is no indication that the instruments are credit-impaired.

Scenario 1: No Expected Credit Losses Identified During the Loan Commitment Period

IE164. As the department of agriculture has committed to issue below-market-rate loans, the commitments are accounted for in accordance with paragraphs 45(d) and 57. The aggregated journal entries to initially account for the loan commitments are as follows:

1. On initial recognition, the entity recognizes the following:

Dr	Expense		1,477,833	
Cr	Loan commitment liability			1,477,833

Recognition of commitments to issue loans at below-market rates

The loan commitments are initially measured at fair value in accordance with paragraph 57.

IE165. No further entries are required during the commitment period. This is a result of the department of agriculture electing not to charge a commitment fee, resulting in no revenue to recognize associated with the loan commitments, and the department identifying no credit losses during the commitment period.

IE166. When the concessionary loans are granted, and the loan commitments are satisfied, the substance of the concessionary loans is assessed. The department of agriculture classifies the financial assets in accordance with paragraphs 39–44. Based on the facts in the example, the department of agriculture classifies the financial assets as measured at amortized cost.

IE167. The aggregated journal entries to account for the concessionary loans are as follows:

2. On initial recognition, the entity recognizes the following:

Dr	Loan		98,522,167	
Dr	Loan commitment liability		1,477,833	
Cr	Cash			100,000,000

Recognition of the advance of the loans at fair value

Paragraph AG125(b) is considered in recognizing an expense for the off-market portion of the loan deemed to be a non-exchange expense. However, as an expense was previously recognized as part of the loan commitment, no further expense is required.

3. Interest is recognized as follows:

Dr	Loan		1,477,833	
Cr	Interest revenue			1,477,833

Interest accrual using the effective interest method (CU98,522,167× 1.5 percent)

4. Loan repayments are recognized as follows:

Dr	Cash		100,000,000	
Cr	Loan			100,000,000

Department of agriculture collects principal repayments of CU100 million

Scenario 2: Evidence of Credit Impairment Identified During the Loan Commitment Period

IE168. As the department of agriculture has committed to issue below-market-rate loans, the commitments are accounted for in accordance with paragraphs 45(d) and 57. The aggregated journal entries to initially account for the loan commitments are as follows:

1. On initial recognition, the entity recognizes the following:

Dr	Expense	1,477,833		
Cr	Loan commitment liability			1,477,833

Recognition of commitments to issue loans at below-market rates

The loan commitments are initially measured at fair value in accordance with paragraph 57.

IE169. During the loan commitment period, the department of agriculture noted the yield from the current season's wheat harvest was expected to be lower than initially projected. Using the most recent information available, the department of agriculture makes the following estimates:

- The portfolio of loans has a lifetime probability of default of 5 percent; and
- The loss given default is 35 percent, and would occur when the principal is repaid.

2. The impairment is recognized as follows:

Dr	Impairment expense	1,724,137		
Dr	Loan commitment liability	1,477,833		
Cr	Loss allowance			3,201,970

Recognition of impairment expense of CU 1.724 million

The impairment expense is CU1.724 million, which is calculated by multiplying the amount of cash flows receivable (CU 100 million) by the probability of default (5 percent) and by the loss given default (35 percent), and discounting at the effective interest rate for one year (1.5 percent).

IE170. As the concessionary loans are provided, and the loan commitments are satisfied, the substance of the concessionary loans is assessed. The department of agriculture classifies the financial assets in accordance with paragraphs 39–44. Based on the facts in the example, the department of agriculture classifies the financial assets as measured at amortized cost.

IE171. The aggregated journal entries to account for the concessionary loans are as follows:

3. On initial recognition, the entity recognizes the following:

Dr	Loan	96,798,030		
Dr	Loss allowance	3,201,970		
Cr	Cash			100,000,000

Recognition of the advance of the loans at fair value

Paragraph AG125(b) is considered in recognizing an expense for the off-market portion of the concessionary originated credit-impaired loan. However, as an expense was previously recognized as part of the loan commitment, no further expense is required.

4. Interest is recognized as follows:

Dr	Loan	1,451,970	
Cr	Interest revenue		1,451,970

Interest accrual using the effective interest method (CU96,798,030 ×1.5 percent)

IE172. Prior to the loan maturing, the harvest was stronger than projected during the commitment period. Credit losses on the principal balance are expected to be CU 500,000.

5. The impairment gain is recognized as follows:

Dr	Loan	1,250,000	
Cr	Impairment gain		1,250,000

Recognition of the impairment gain of CU1.25 million

Reduction of CU1.25 million is required in order to recognize total expected credit losses of CU500,000 (CU99,500,000 – CU96,798,030 – CU1,451,970).

6. Loan repayments are recognized as follows:

Dr	Cash	99,500,000	
Cr	Loan		99,500,000

Department of agriculture collects principal repayments of CU99.5 million

Calculations:

Table 1: Amortization Schedule (Using Contractual Repayments at 1.5 Percent Interest)

	Year 0	**Year 1**
Principal	100,000,000	100,000,000
Interest	–	-
Payments	–	100,000,000
Balance	**100,000,000**	**-**

Table 2: Discounting Contractual Cash Flows (Based on a Market Rate of 1.5 Percent)

	Year 1 CU
Principal balance	100,000,000

Interest payable	-
Total payments (principal and interest)	100,000,000
Present value of payments	98,522,167
Total present value of payments	98,522,167
Proceeds paid	100,000,000
Less: Present value of outflows (fair value of loan on initial recognition)	98,522,167
Off-market portion of loan to be recognized as expense	1,477,833

Table 3: Calculation of Loan Balance and Interest Using the Effective Interest Method

	Year 1 CU
Principal	98,522,167
Interest accrual	1,477,833
Interest	-
Principal payments	100,000,000
Balance	-

Financial Guarantee (Paragraphs AG131–AG136)

Example 23—Financial Guarantee Contract Provided at Nominal Consideration

IE173. Entity C is a major motor vehicle manufacturer in Jurisdiction A. On January 1, 20X1 Government A (the issuer) enters into a financial guarantee contract with Entity B (the holder) to reimburse Entity B against the financial effects of default by Entity C (the debtor) for a 5 year loan of 50 million Currency Units (CUs) repayable in two equal installments of CU25 million in 20X3 and 20X5. Entity C provides nominal consideration of CU5,000 to Government A. At initial recognition, Government A measures the financial guarantee contract at fair value. Applying a valuation technique, Government A determines the fair value of the financial guarantee contract to be CU5,000,000.

IE174. On December 31, 20X1, having reviewed the financial position and performance of Entity C and having evaluated forward looking information including expected automotive industry trends, Government A determines there has been no significant increase in credit risk since initial recognition. In applying the measurement requirements of paragraph 45(c), Government A measures the financial guarantee contract at the higher of:

(i) The amount of the loss allowance calculated in accordance with this standard; and

(ii) The amount initially recognized, less the cumulative amount of revenue recognized.

Government A measures the loss allowance at an amount equal to the 12 month expected credit losses. Government A calculates the amount of loss allowance to be less than the amount initially recognized. Government A therefore does not recognize an additional liability in its statement of financial position. Government A makes the disclosures relating to fair value and credit risk in IPSAS 30, *Financial Instruments*: *Disclosures* in respect of the financial guarantee contract. In its statement of financial performance

Government A recognizes revenue of CU1,000,000 in respect of the initial fair value of the instrument (total consideration of CU5,000,000 / 5 years).

IE175. In 20X2 there has been a downturn in the motor manufacturing sector affecting Entity C. Although it has met its obligations for interest payments, Entity C is seeking bankruptcy protection and is expected to default on its first repayment of principal. Negotiations are advanced with a potential acquirer (Entity D), which will restructure Entity C. Entity D has indicated that it will assume responsibility for the final installment of the loan with Entity B, but not the initial installment. Government A determines there has been a significant increase in credit risk since initial recognition of the financial guarantee contract and measures the loss allowance associated with the financial guarantee contract at an amount equal to the lifetime expected credit losses. Government A calculates the lifetime expected credit losses to be CU25.5 million and recognizes an expense for, and increases its liability by, CU22.5 million (after the sale to Entity D, the Government has an expected loss of 25 million CUs on the first installment and CU500,000 on the final installment, for a total liability of CU25.5 million. The current balance of the financial guarantee of CU3 million is required to be increased by CU22.5 million).

IE176. The journal entries at initial acquisition and at the reporting dates are as follows:

1. On initial recognition, the entity recognizes the following:

Dr		Bank	5,000	
Dr		Expense	4,995,000	
	Cr	Financial guarantee contract		5,000,000

2. Year 1: The entity recognizes the following

Dr		Financial guarantee contract	1,000,000	
	Cr	Revenue		1,000,000

Revenue of CU5,000,000 is recognized over a 5 year period

3. Year 2: The entity recognizes the following:

Dr		Financial guarantee contract	1,000,000	
	Cr	Revenue		1,000,000

Revenue of CU5,000,000 is recognized over a 5 year period

Dr		Expense	22,500,000	
	Cr	Financial guarantee contract		22,500,000

Lifetime expected credit losses of CU25.5 million less CU3,000,000 recognized as a liability

Fair Value Measurement Considerations (Paragraphs 66–68)

IE177. Illustrative examples 23–26 demonstrate different valuation techniques for valuing unquoted equity instruments. When selecting an appropriate valuation technique, professional judgment is exercised in considering the requirements in AG149–AG154.

Example 24—Valuation of Unquoted Equity Instruments (Transaction Price Paid for an Identical or Similar Instrument)

IE178. In 20X0, a Sovereign Wealth Fund bought ten equity shares of Entity D, a private company, representing ten per cent of the outstanding voting shares of Entity D, for CU1,000. The Sovereign Wealth Fund prepares annual financial statements and is required to measure the fair value of its non-controlling equity interest in Entity D as at December 31, 20X2 (i.e., the measurement date).

IE179. During December of 20X2, Entity D raised funds by issuing new equity capital (ten shares for CU1,200) to other investors. The Sovereign Wealth Fund concludes that the transaction price of the new equity capital issue for CU1,200 represents fair value at the date those shares were issued.

IE180. Both the Sovereign Wealth Fund and the other investors in Entity D have shares with the same rights and conditions. Between the new equity capital issue to other investors and the measurement date, there have been no significant external or internal changes in the environment in which Entity D operates. As a result, the Sovereign Wealth Fund concludes that CU1,200 is the amount that is most representative of the fair value of its non-controlling equity interest in Entity D at the measurement date.

Analysis

IE181. When an investor has recently made an investment in an instrument that is identical to the unquoted equity instrument being valued, the transaction price can be a reasonable starting point for measuring the fair value of the unquoted equity instrument at the measurement date, if that transaction price represented the fair value of the instrument at initial recognition. An investor must, however, use all information about the performance and operations of an investee that becomes reasonably available to the investor after the date of initial recognition up to the measurement date, because such information might have an effect on the fair value of the unquoted equity instrument of the investee at the measurement date.

Example 25—Valuation of Unquoted Equity Instruments (Discounted Cash Flow)

IE182. As part of an initiative to encourage the use of renewable energy, Government A has a five per cent non-controlling equity interest in Entity R, a private company developing highly efficient solar panels in Government A's jurisdiction. Government A derives Entity R's indicated fair value of equity by deducting the fair value of debt (in this case assumed to be CU240 million) from the enterprise value of CU1,121.8 million as shown in the table below. Government A has concluded that there are no relevant non-operating items that need to be adjusted from Entity R's expected free cash (FCF).

IE183. Entity R's value was computed by discounting the expected free cash flows (i.e., post-tax cash flows before interest expense and debt movements, using an unlevered tax rate) by an assumed weighted average cost of capital (WACC) of 8.9 per cent. The WACC computation included the following variables: cost of equity capital of 10.9 per cent, cost of debt capital of 5.7 percent, effective income tax rate of 30 per cent, debt to total capital ratio of 28.6 per cent and equity to total capital ratio of 71.4 per cent.

	Year 0 CU'000	Year 1 CU'000	Year 2 CU'000	Year 3 CU'000	Year 4 CU'000	Year 5 CU'000
FCF[47]		-	100	100	100	100
Terminal value[48]						1,121.8
DCF Method using enterprise value less fair value of debt						
Discount factors[49]		0.9182	0.8430	0.7740	0.7107	0.6525
Present value of FCF and terminal value[50]		91.8	84.3	77.4	71.1	797.2
Enterprise value	1,121.8					
Less fair value of debt	(240.0)					
Indicated fair value of equity	**881.8**					

IE184. This example assumes that all unquoted equity instruments of Entity R have the same features and give the holders the same rights. However, Government A considers that the indicated fair value of equity obtained above (CU881.8 million) must be further adjusted to consider:

- A non-controlling interest discount because Government A's interest in Entity R is a non-controlling equity interest and Government A has concluded that there is a benefit associated with control. For the purposes of this example, it has been assumed that the non-controlling interest discount is CU8.00 million;[51] and
- A discount for the lack of liquidity, because Government A's interest in Entity R is unquoted. For the purposes of this example, it has been assumed that the discount for the lack of liquidity amounts to CU4.09 million.

IE185. As a result, Government A concludes that CU32 million is the price that is most representative of the fair value of its five per cent non-controlling equity interest in Entity R at the measurement date, as shown below:

47 FCF represent cash flows before interest expense and debt movements. The tax charge has been computed considering no deduction for interest expense.

48 The terminal value has been computed assuming the yearly cash flows amounting to CU100 million would grow in perpetuity at a rate of zero (i.e., assuming that the impact of inflation on future cash flows is expected to be offset by market shrinkage).

49 The discount factors have been computed using the formula: 1/(1 + WACC) ^ year. This formula, however, implies that the cash flows are expected to be received at the end of each period. Sometimes it might be more appropriate to assume that cash flows are received more or less evenly throughout the year (mid-year discounting convention). Using the mid-year discounting convention, the discount factor for year 'n' would have been computed as follows: 1/(1 + WACC) ^ (n – 0.5).

50 The present value amounts have been computed by multiplying the FCF and terminal value by the corresponding discount factors.

51 The process shown above is not the only possible method that a public sector entity could apply to measure the fair value of its non-controlling equity interest. As a result, the adjustments above should not be considered to be a comprehensive list of all applicable adjustments. The necessary adjustments will depend on the specific facts and circumstances. In addition, the amounts of the adjustments above are not supported by detailed calculations. They have been included for illustrative purposes only.

	CU'000
Indicated fair value of equity × 5 percent	
(i.e., CU881.8 × 5 percent)	44.09
Non-controlling interest discount	(8.00)
Discount for lack of liquidity	(4.09)
Fair value of 5 percent non-controlling equity interest	**32.00**

Example 26—Valuation of Unquoted Equity Instruments (Constant Growth with Limited Information)

IE186. Entity S is a private company. Public Investment Fund T has a ten per cent non-controlling equity interest in Entity S. Entity S's management has prepared a two-year budget. However, Entity S's management shared with the manager of Public Pension Plan T materials from its annual Board meetings, at which management discussed the assumptions to back up the expected growth plan for the next five years.

IE187. On the basis of the information obtained from the Board meeting, Public Investment Fund T has extrapolated the two-year budget by reference to the basic growth assumptions discussed in the Board meeting and has performed a discounted cash flow calculation.

IE188. On the basis of Entity S's management's two-year detailed budget, sales and EBIT would reach CU200 and CU50, respectively, in 20X3. Public Investment Fund T understands that Entity S's management expects sales to achieve further growth of five per cent per annum until 20X8 with the same EBIT margin (as a percentage of sales) as in 20X3. Consequently, Public Investment Fund T projects the EBIT of Entity S as follows:[52]

	Year 1 CU'000	Year 2 CU'000	Year 3 CU'000	Year 4 CU'000	Year 5 CU'000	Year 6 CU'000	Year 7 CU'000
Sales	150	200	210	221	232	243	255
EBIT margin	23%	25%	25%	25%	25%	25%	25%
EBIT	**35**	**50**	**53**	**55**	**58**	**61**	**64**

IE189. Public Investment Fund T is also aware that the management of Entity S expects the entity to reach a stable growth stage by 20X8. To calculate the terminal value, using the constant growth discount model, Public Investment Fund T assumes a long-term terminal growth rate of two per cent on the basis of the long-term outlook of Entity S, its industry and the economy in the country where Entity S operates. If Entity S has not reached the stable growth stage by the end of the projection period, Public Investment Fund T would need to extend the projection period until the stable growth stage is reached and calculate the terminal value at that point.[53]

[52] To derive Entity S's FCF for use in the discounted cash flow method, Public Investment Fund T used Entity S's two-year budget and its understanding of the investee's asset and capital structures, reinvestment requirements and working capital needs.

[53] This example illustrates a two-stage model in which the first stage is delineated by a finite number of periods (20X2–20X8) and after this first stage the example assumes a period of constant growth for which Public Investment Fund T calculates a terminal value for Entity S. In other cases an investor might conclude that a multiple-stage model rather than a two-stage model would be more appropriate. A multiple-stage model would generally have a period after the discrete projection period in which growth might be phased down over a number of years before the constant growth period for which a terminal value can be estimated.

IE190. Finally, Public Investment Fund T cross-checks this valuation by comparing Entity S's implied multiples to those of its comparable company peers.[54]

Example 27—Valuation of Unquoted Equity Instruments (Adjusted Net Assets)

IE191. State Government A has a ten per cent non-controlling equity interest in Entity V, a private company. There is no controlling shareholder for Entity V, which is a payroll services provider for its investors, including State Government A. Entity V's transactions, and therefore service fees, depend on the total number of employees of its investors (which are all the State Governments of Jurisdiction Z) and, as a result, Entity V does not have its own growth strategy. Entity V has a very low profit margin and it does not have comparable public company peers.

IE192. State Government A needs to measure the fair value of its non-controlling equity interest in Entity V as of December 31, 20X1 (i.e., the measurement date). State Government A has Entity V's latest statement of financial position, which is dated September 30, 20X1.

IE193. The following are the adjustments performed by State Government A to the latest statement of financial position of Entity V:

- Entity V's major asset is an office building that was acquired when Entity V was founded 25 years ago. The fair value of the building was measured by a valuation specialist at CU2,500 at the measurement date. This value compares to a book value of CU1,000.
- During the three-month period from September 30, 20X1 to the measurement date, the fair value of Entity V's investments in public companies changed from CU500 to CU600.
- State Government A observes that Entity V measures its current assets and current liabilities at fair value. The volume of operations of Entity V is so flat that the investor estimates that the amounts of the current assets and current liabilities shown in Entity V's statement of financial position as of September 30, 20X1 are most representative of their fair value at the measurement date, with the exception of an amount of CU50 included in Entity V's trade receivables that became unrecoverable after September 30, 20X1.
- On the basis of Entity V's management model and profitability, State Government A estimates that unrecognized intangible assets would not be material.
- State Government A does not expect that Entity V's cash flows for the quarter ended December 31, 20X1 are material.
- State Government A does not expect any major sales of assets from Entity V. As a result, it concludes that there are no material tax adjustments that need to be considered when valuing Entity V.

Entity V – Statement of financial position (CU)

	Sept 30, 20X1	Adjustments	Estimated Dec 31, 20x1
ASSETS			
Non-current assets			
Property, plant and equipment	2,000	1,500	3,500

[54] This example assumes that the fair value conclusion would have included any necessary adjustments (for example, non-controlling interest discount, discount for the lack of liquidity etc.) that market participants would incorporate when pricing the equity instruments at the measurement date.

Entity V – Statement of financial position (CU)

	Sept 30, 20X1	Adjustments	Estimated Dec 31, 20x1
Investments in equity instruments	500	100	600
	2,500	1,600	4,100
Current assets			
Trade receivables	500	(50)	450
Cash and cash equivalents	500	-	500
	1,000	(50)	950
Total Assets	**3,500**	**1,550**	**5,050**
NET ASSETS/EQUITY AND LIABILITIES			
Total net assets/equity	2,500	1,550	4,050
Current liabilities	1,000	0	1,000
Total net assets/equity and liabilities	**3,500**	**1,550**	**5,050**

IE194. Before considering any adjustments (for example, discount for the lack of liquidity, non-controlling interest discount), the indicated fair value of State Government A's ten per cent non-controlling equity interest in Entity V is CU405 (10 percent × CU4,050 = CU405). For the purpose of this example, it has been assumed that the discount for the lack of liquidity amounts to CU40 and that the non-controlling interest discount amounts to CU80.

IE195. On the basis of the facts and circumstances described above, State Government A concludes that the price that is most representative of fair value for its ten per cent non-controlling equity interest in Entity V is CU285 at the measurement date (CU405 – (CU40 – CU85 = CU285).[55]

Example 28—Valuation of Unquoted Equity Instruments with Non-Exchange Component

IE196. National Government A purchased 1,000 shares of International Investment Bank B on 1 July 20X6 for CU5,000, or CU5 per share. Because National Government A is a non-controlling shareholder, it does not receive the Bank's budgets or cash flow forecasts. National Government A prepares annual financial statements and is measuring the fair value of its non-controlling equity interest in the International Investment Bank on December 31, 20X6 (i.e., the measurement date).

IE197. The amount paid for the unquoted equity instruments (CU5,000) in July 20X6 is a reasonable starting point for measuring the fair value of the investor's non-controlling equity interest in International Investment Bank B at the measurement date. However, National Government A is required to assess whether the amount paid needs to be adjusted if there is evidence that other factors exist or if other evidence indicates that the

[55] The process shown above is not the only possible method that a public sector entity could apply to measure the fair value of its non-controlling equity interest. As a result, the adjustments above should not be considered to be a comprehensive list of all applicable adjustments. The necessary adjustments will depend on the specific facts and circumstances. In addition, the amounts of the adjustments above are not supported by detailed calculations. They have been included for illustrative purposes only.

transaction price is not representative of fair value at the measurement date. For example, in some circumstances a public sector entity may transfer consideration in excess of the fair value of the shares acquired, to provide a subsidy to the recipient. In these circumstances, National Government A adjusts the transaction price accordingly and recognizes an expense for the concessionary portion of the consideration because the transaction includes a payment for the equity instrument and subsidy.

Example 29—Valuation of Unquoted Equity Instruments Arising from a Non-Exchange Transaction

IE198. On January 1, 20X1, National Government A transfers CU1000 to International Development Bank B. In exchange, Bank B issues 100 common shares with a par value of CU8. In transferring the CU1000, National Government A granted a concession of CU200, as evidenced in the transaction documentation.

IE199. When accounting for the transaction, National Government A identifies two components embedded in the transfer of CU1000. The first component is a non-exchange expense of CU200. National Government A applies the guidance in paragraphs AG128–AG130 when accounting for this component.

IE200. The second component is the 100 common shares in Bank B. IPSAS 41 requires, at initial recognition, financial instruments be measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, directly attributable transaction costs.

IE201. As the best evidence of fair value at initial recognition is normally the transaction price, National Government A determines the transaction price of CU800, as evidenced in the transaction document (100 common shares x par value of CU8/share), is the appropriate value at initial recognition.

IE202. In addition to the transaction documentation, National Government concludes CU8 per share is the fair value of each share based on other similar transactions Bank B had with other national governments. In each transaction, Bank B issued common shares for CU8.

Example 30—Valuation of Debt Obligations: Quoted Price

IE203. On January 1, 20X1, State Government B issues at par a CU2 million BBB-rated exchange-traded five-year fixed rate debt instrument with an annual 10 per cent coupon. State Government B designated this financial liability as at fair value through surplus or deficit.

IE204. On December 31, 20X1, the instrument is trading as an asset in an active market at CU929 per CU1,000 of par value after payment of accrued interest. State Government B uses the quoted price of the asset in an active market as its initial input into the fair value measurement of its liability (CU929 × [CU2 million ÷ CU1,000] = CU1,858,000).

IE205. In determining whether the quoted price of the asset in an active market represents the fair value of the liability, State Government B evaluates whether the quoted price of the asset includes the effect of factors not applicable to the fair value measurement of a liability. State Government B determines that no adjustments are required to the quoted price of the asset. Accordingly, State Government B concludes that the fair value of its debt instrument at December 31, 20X1, is CU1,858,000. State Government B categorizes and discloses the fair value measurement of its debt instrument within Level 1 of the fair value hierarchy in accordance with IPSAS 30, *Financial Instruments: Disclosures*.

Example 31—Valuation of Debt Obligations: Present Value Technique

IE206. On January 1, 20X1, National Government C issues at par in a private placement a CU2 million BBB-rated five-year fixed rate debt instrument with an annual 10 per cent coupon. National Government C designated this financial liability as at fair value through surplus or deficit.

IE207. At December 31, 20X1, National Government C still carries a BBB credit rating. Market conditions, including available interest rates, credit spreads for a BBB-quality credit rating and liquidity, remain unchanged from

the date the debt instrument was issued. However, National Government C's credit spread has deteriorated by 50 basis points because of a change in its risk of non-performance. After taking into account all market conditions, National Government C concludes that if it was to issue the instrument at the measurement date, the instrument would bear a rate of interest of 10.5 per cent or National Government C would receive less than par in proceeds from the issue of the instrument.

IE208. For the purpose of this example, the fair value of National Government C's liability is calculated using a present value technique. National Government C concludes that a market participant would use all the following inputs when estimating the price the market participant would expect to receive to assume National Government C's obligation:

(a) the terms of the debt instrument, including all the following:

(i) coupon of 10 percent;

(ii) principal amount of CU2 million; and

(iii) term of four years.

(b) the market rate of interest of 10.5 per cent (which includes a change of 50 basis points in the risk of non-performance from the date of issue).

IE209. On the basis of its present value technique, National Government C concludes that the fair value of its liability at December 31, 20X1 is CU1,968,641.

IE210. Entity C does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Because National Government C's obligation is a financial liability, National Government C concludes that the interest rate already captures the risk or profit that a market participant would require as compensation for assuming the liability. Furthermore, National Government C does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability.

Classification of Financial Assets (Paragraphs 39–44)

Example 32—Capital Subscriptions Held with Redemption Features

IE211. In order to participate in and support the activities of International Development Bank A, or similar international organization, Federal Government B invested and acquired a fixed number of subscription rights in International Development Bank A, based on Federal Government B's proportional share of global Gross Domestic Product. Each subscription right costs CU1,000, which provides Federal Government B with the right to put the subscription rights back to International Development Bank A in exchange for the initial amount invested (i.e., CU1,000 per subscription right). International Development Bank A has no obligation to deliver dividends on the subscription rights.

IE212. Government B is evaluating the appropriate classification of the financial asset based on the terms of the subscription rights.

IE213. In determining the classification of the financial asset, Government B concludes the subscription rights do not meet the definition of an equity instrument as defined in IPSAS 28, *Financial Instruments: Presentation*.[56] As a result, Government B concludes the election available in paragraph 43 to measure an equity instrument at fair value through net assets/equity is not available.

[56] Based on guidance in paragraphs 15, 16, 17 and 18 of IPSAS 28 it is possible the puttable subscription rights meet the requirements to be classified as an equity instrument from the Bank's perspective. However, instruments meeting the provisions of paragraphs 15, 16, 17 and 18 of IPSAS 28 do not meet the definition of an equity instrument in IPSAS 28.

IE214. Furthermore, as the contractual terms of the subscription rights fail to give rise on specified dates to cash flows solely for payments of principal and interest, the subscription rights cannot be classified as a debt instrument measured at amortized cost or fair value through net assets/equity. Government B concludes puttable subscription rights are required to be classified at fair value through surplus or deficit.

Effective Interest Method (Paragraphs 69–70)

Example 33—Measuring the Effective Interest Rate of a Bond Issued at a Discount with Transaction Costs

IE215. State Government A issues a 5-year bond with a face value of CU500,000. The instrument carries a fixed yield of 4 percent, with interest payments paid annually. The bond was issued at a discount of 2 percent and State Government A was required to pay the bond underwriters a fee equal to CU12,000 on the transaction date.

IE216. In determining the amortized cost of the instrument, State Government A must calculate the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the instrument to the gross carrying amount of the instrument.

IE217. Assuming there are no expectations of prepayment, extension or other call options, the estimated future cash flows are CU20,000 per annum in interest payments (CU20,000 = CU500,000 × 4 percent), with an additional CU500,000 principal payment made at maturity.

IE218. The gross carrying amount of the bond on the transaction date is calculated based on the net proceeds received by State Government A. Since the bond was issued at a discount, before transaction costs, State Government A received CU490,000 (CU500,000 × (100 percent – 2 percent)). Taking transaction costs into account, the next proceeds on issue were CU478,000 (CU490,000 – CU12,000).

Year	**(a)**	**(b)**	**(c)**	**(d = a – b – c)**
	Cash inflows	**Cash outflows (transaction costs and interest)**	**Cash outflows (principal)**	**Net cash flows**
Year 1 (beginning)	500,000	12,000	10,000	478,000
Year 1 (end)	-	20,000	-	(20,000)
Year 2	-	20,000	-	(20,000)
Year 3	-	20,000	-	(20,000)
Year 4	-	20,000	-	(20,000)
Year 5	-	20,000	500,000	(520,000)

IE219. The effective interest rate of the bond is calculated by determining the rate that exactly discounts the estimated cash flows of CU20,000 per annum, plus the principal repayment at maturity, to the gross amount of CU478,000. Essentially, the effective interest rate determines the rate of interest incurred based on the net proceeds received by State Government A.

IE220. In this example, the effective interest rate is 5.02 percent. This is appropriate as the bond yield was stated to be 4 percent on a principal amount of CU500,000. However, in substance, State Government A only receives CU478,000 and continues to make annual interest payments of CU20,000. As such, as the transaction costs and discount increase, the more the effective interest rate will diverge from the contractual rate.

Effective interest rate = 5.02				
Year	**(a)**	**(b)**	**(c)**	**(d = a + b – c)**
	Opening balance	**Interest expense**	**Interest/principal payment**	**Ending balance**
Year 1	478,000	23,980	20,000	481,980
Year 2	481,980	24,180	20,000	486,160
Year 3	486,160	24,389	20,000	490,549
Year 4	490,549	24,610	20,000	495,159
Year 5	495,159	24,841	520,000	-

IMPLEMENTATION GUIDANCE

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Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 41.

Section A Scope

A.1 Practice of Settling Net: Forward Contract to Purchase a Commodity

Entity XYZ enters into a fixed price forward contract to purchase one million barrels of oil in accordance with its expected usage requirements. The contract permits XYZ to take physical delivery of the oil at the end of twelve months or to pay or receive a net settlement in cash, based on the change in fair value of oil. Is the contract accounted for as a derivative?

While such a contract meets the definition of a derivative, it is not necessarily accounted for as a derivative. The contract is a derivative instrument because there is no initial net investment, the contract is based on the price of oil and it is to be settled at a future date. However, if XYZ intends to settle the contract by taking delivery and has no history for similar contracts of settling net in cash or of taking delivery of the oil and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin, the contract is not accounted for as a derivative under IPSAS 41. Instead, it is accounted for as an executory contract (unless the entity irrevocably designates it as measured at fair value through surplus or deficit in accordance with paragraph 6 of IPSAS 41).

A.2 Option to Put a Non-Financial Asset

Entity XYZ owns an office building. XYZ enters into a put option with an investor that permits XYZ to put the building to the investor for CU150 million. The current value of the building is CU175 million.[57] The option expires in five years. The option, if exercised, may be settled through physical delivery or net cash, at XYZ's option. How do both XYZ and the investor account for the option?

XYZ's accounting depends on XYZ's intention and past practice for settlement. Although the contract meets the definition of a derivative, XYZ does not account for it as a derivative if XYZ intends to settle the contract by delivering the building if XYZ exercises its option and there is no past practice of settling net (paragraph 5 of IPSAS 41; but see also paragraph 6 of IPSAS 41).

The investor, however, cannot conclude that the option was entered into to meet the investor's expected purchase, sale or usage requirements because the investor does not have the ability to require delivery (IPSAS 41, paragraph 8). In addition, the option may be settled net in cash. Therefore, the investor has to account for the contract as a derivative. Regardless of past practices, the investor's intention does not affect whether settlement is by delivery or in cash. The investor has written an option, and a written option in which the holder has a choice of physical settlement or net cash settlement can never satisfy the normal delivery requirement for the exemption from IPSAS 41 because the option writer does not have the ability to require delivery.

However, if the contract were a forward contract instead of an option, and if the contract required physical delivery and the reporting entity had no past practice of settling net in cash or of taking delivery of the building and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin, the contract would not be accounted for as a derivative. (But see also paragraph 6 of IPSAS 41).

[57] In this guidance, monetary amounts are denominated in 'currency units' (CU).

Section B Definitions

Section B provides non-authoritative guidance on whether certain items meet the definitions in IPSAS 41.

B.1 Definition of a Financial Instrument: Gold Bullion

Is gold bullion a financial instrument (like cash) or is it a commodity?

It is a commodity. Although bullion is highly liquid, there is no contractual right to receive cash or another financial asset inherent in bullion.

B.1.1 Definition of a Financial Instrument: Monetary Gold

Is monetary gold a financial instrument (like cash)?

No. Similar to gold bullion, monetary gold is not a financial instrument as there is no contractual right to receive cash or another financial asset inherent in the item. However, given that monetary gold shares several characteristics with a financial asset, applying the principles set out in IPSAS 41 is generally appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. It may however be appropriate for an entity to consider other IPSAS depending on the facts and circumstances related to its holding of monetary gold.

B.1.2 Public Sector Specific Financial Instruments

B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender

Does issuing currency as legal tender create a financial liability for the issuer?

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:

- Willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract; and
- The remedy for non-performance is enforceable by law.

When laws and regulations or similar requirements enforceable by law, such as a Banking Act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a “contract” exists for the purposes of this Standard. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Where no financial liability exists, an entity should consider whether an obligation is created in accordance with paragraphs 22–43 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, Inventories, in accounting for any unissued currency.

B.1.2.2 Definition of a Financial Instrument: Special Drawing Rights (SDR) Holdings

Do Special Drawing Rights (SDR) Holdings meet the definition of a financial asset?

Yes. SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SDR’s can be used in transactions with the IMF or can be exchanged between participants of the IMF’s SDR Department.

Liquidity is guaranteed by a mechanism requiring participants to deliver cash in exchange for SDRs. Accordingly, SDR holdings are regarded as a financial asset.

B.1.2.3 Definition of a Financial Instrument: Special Drawing Rights (SDR) Allocations

Do Special Drawing Rights (SDR) Allocations meet the definition of a financial liability?

Yes. SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand ready to provide currency holdings up to the amount of their SDR allocation. This represents a contractual obligation to deliver cash. Accordingly, SDR allocations are regarded as a financial liability.

B.2 Definition of a Derivative: Examples of Derivatives and Underlyings

What are examples of common derivative contracts and the identified underlying?

IPSAS 41 defines a derivative as follows:

A derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics.

(a) **Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying").**

(b) **It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.**

(c) **It is settled at a future date.**

Type of contract	**Main pricing-settlement variable (underlying variable)**
Interest rate swap	Interest rates
Currency swap (foreign exchange swap)	Currency rates
Commodity swap	Commodity prices
Equity swap	Equity prices (equity instrument of another entity)
Credit swap	Credit rating, credit index or credit price
Total return swap	Total fair value of the reference asset and interest rates
Purchased or written treasury bond option (call or put)	Interest rates
Purchased or written currency option (call or put)	Currency rates
Purchased or written commodity option (call or put)	Commodity prices
Purchased or written stock option (call or put)	Equity prices (equity instrument of another entity)
Interest rate futures linked to government debt (treasury futures)	Interest rates
Currency futures	Currency rates
Commodity futures	Commodity prices

Type of contract	Main pricing-settlement variable (underlying variable)
Interest rate forward linked to government debt (treasury forward)	Interest rates
Currency forward	Currency rates
Commodity forward	Commodity prices
Equity forward	Equity prices (equity instrument of another entity)

The above list provides examples of contracts that normally qualify as derivatives under IPSAS 41. The list is not exhaustive. Any contract that has an underlying may be a derivative. Moreover, even if an instrument meets the definition of a derivative contract, special provisions may apply, for example, if it is a weather derivative (see paragraph AG1 of IPSAS 41), a contract to buy or sell a non-financial item such as commodity (see paragraphs 6–8 and AG8 of IPSAS 41) or a contract settled in an entity's own shares (see paragraphs 25–29 of IPSAS 28). Therefore, an entity must evaluate the contract to determine whether the other characteristics of a derivative are present and whether special provisions apply.

B.3 Definition of a Derivative: Settlement at a Future Date, Interest Rate Swap with Net or Gross Settlement

For the purpose of determining whether an interest rate swap is a derivative financial instrument under IPSAS 41, does it make a difference whether the parties pay the interest payments to each other (gross settlement) or settle on a net basis?

No. The definition of a derivative does not depend on gross or net settlement.

To illustrate: Entity ABC enters into an interest rate swap with a counterparty (XYZ) that requires ABC to pay a fixed rate of 8 percent and receive a variable amount based on three-month LIBOR, reset on a quarterly basis. The fixed and variable amounts are determined based on a CU100 million notional amount. ABC and XYZ do not exchange the notional amount. ABC pays or receives a net cash amount each quarter based on the difference between 8 percent and three-month LIBOR. Alternatively, settlement may be on a gross basis.

The contract meets the definition of a derivative regardless of whether there is net or gross settlement because its value changes in response to changes in an underlying variable (LIBOR), there is no initial net investment, and settlements occur at future dates.

B.4 Definition of a Derivative: Prepaid Interest Rate Swap (Fixed Rate Payment Obligation Prepaid at Inception or Subsequently)

If a party prepays its obligation under a pay-fixed, receive-variable interest rate swap at inception, is the swap a derivative financial instrument?

Yes. To illustrate: Entity S enters into a CU100 million notional amount five-year pay-fixed, receive-variable interest rate swap with Counterparty C. The interest rate of the variable part of the swap is reset on a quarterly basis to three-month LIBOR. The interest rate of the fixed part of the swap is 10 percent per year. Entity S prepays its fixed obligation under the swap of CU50 million (CU100 million × 10 percent × 5 years) at inception, discounted using market interest rates, while retaining the right to receive interest payments on the CU100 million reset quarterly based on three-month LIBOR over the life of the swap.

The initial net investment in the interest rate swap is significantly less than the notional amount on which the variable payments under the variable leg will be calculated. The contract requires an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, such as a variable rate bond. Therefore, the contract fulfills the "no initial net investment or an initial net

investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors" provision of IPSAS 41. Even though Entity S has no future performance obligation, the ultimate settlement of the contract is at a future date and the value of the contract changes in response to changes in the LIBOR index. Accordingly, the contract is regarded as a derivative contract.

Would the answer change if the fixed rate payment obligation is prepaid subsequent to initial recognition?

If the fixed leg is prepaid during the term, that would be regarded as a termination of the old swap and an origination of a new instrument that is evaluated under IPSAS 41.

B.5 Definition of a Derivative: Prepaid Pay-Variable, Receive-Fixed Interest Rate Swap

If a party prepays its obligation under a pay-variable, receive-fixed interest rate swap at inception of the contract or subsequently, is the swap a derivative financial instrument?

No. A prepaid pay-variable, receive-fixed interest rate swap is not a derivative if it is prepaid at inception and it is no longer a derivative if it is prepaid after inception because it provides a return on the prepaid (invested) amount comparable to the return on a debt instrument with fixed cash flows. The prepaid amount fails the "no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors" criterion of a derivative.

To illustrate: Entity S enters into a CU100 million notional amount five-year pay-variable, receive-fixed interest rate swap with Counterparty C. The variable leg of the swap is reset on a quarterly basis to three-month LIBOR. The fixed interest payments under the swap are calculated as 10 percent times the swap's notional amount, i.e., CU10 million per year. Entity S prepays its obligation under the variable leg of the swap at inception at current market rates, while retaining the right to receive fixed interest payments of 10 percent on CU100 million per year.

The cash inflows under the contract are equivalent to those of a financial instrument with a fixed annuity stream since Entity S knows it will receive CU10 million per year over the life of the swap. Therefore, all else being equal, the initial investment in the contract should equal that of other financial instruments that consist of fixed annuities. Thus, the initial net investment in the pay-variable, receive-fixed interest rate swap is equal to the investment required in a non-derivative contract that has a similar response to changes in market conditions. For this reason, the instrument fails the "no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors" criterion of IPSAS 41. Therefore, the contract is not accounted for as a derivative under IPSAS 41. By discharging the obligation to pay variable interest rate payments, Entity S in effect provides a loan to Counterparty C.

B.6 Definition of a Derivative: Offsetting Loans

Entity A makes a five-year fixed rate loan to Entity B, while B at the same time makes a five-year variable rate loan for the same amount to A. There are no transfers of contractual par amount at inception of the two loans, since A and B have a netting agreement. Is this a derivative under IPSAS 41?

Yes. This meets the definition of a derivative (that is to say, there is an underlying variable, no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and future settlement). The contractual effect of the loans is the equivalent of an interest rate swap arrangement with no initial net investment. Non-derivative transactions are aggregated and treated as a derivative when the transactions result, in substance, in a derivative. Indicators of this would include:

- They are entered into at the same time and in contemplation of one another;
- They have the same counterparty;
- They relate to the same risk; and

- There is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

The same answer would apply if Entity A and Entity B did not have a netting agreement, because the definition of a derivative instrument in IPSAS 41 does not require net settlement.

B.7 Definition of a Derivative: Option Not Expected to be Exercised

The definition of a derivative in IPSAS 41 requires that the instrument "is settled at a future date". Is this criterion met even if an option is expected not to be exercised, for example, because it is out of the money?

Yes. An option is settled upon exercise or at its maturity. Expiry at maturity is a form of settlement even though there is no additional exchange of consideration.

B.8 Definition of a Derivative: Foreign Currency Contract Based on Sales Volume

A South African entity, Entity XYZ, whose functional currency is the South African rand, sells electricity to Mozambique denominated in US dollars. XYZ enters into a contract with an investment bank to convert US dollars to rand at a fixed exchange rate. The contract requires XYZ to remit US dollars based on its sales volume in Mozambique in exchange for rand at a fixed exchange rate of 6.00. Is that contract a derivative?

Yes. The contract has two underlying variables (the foreign exchange rate and the volume of sales), no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and a payment provision. IPSAS 41 does not exclude from its scope derivatives that are based on sales volume.

B.9 Definition of a Derivative: Prepaid Forward

An entity enters into a forward contract to purchase shares of stock in one year at the forward price. It prepays at inception based on the current price of the shares. Is the forward contract a derivative?

No. The forward contract fails the "no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors" test for a derivative.

To illustrate: Entity XYZ enters into a forward contract to purchase one million T ordinary shares in one year. The current market price of T is CU50 per share; the one-year forward price of T is CU55 per share. XYZ is required to prepay the forward contract at inception with a CU50 million payment. The initial investment in the forward contract of CU50 million is less than the notional amount applied to the underlying, one million shares at the forward price of CU55 per share, i.e., CU55 million. However, the initial net investment approximates the investment that would be required for other types of contracts that would be expected to have a similar response to changes in market factors because T's shares could be purchased at inception for the same price of CU50. Accordingly, the prepaid forward contract does not meet the initial net investment criterion of a derivative instrument.

While this instrument does not meet the definition of a derivative in its entirety, it meets the classification criteria of a financial asset to be measured at fair value through surplus or deficit. As the contractual terms of the forward contract do not include a requirement for Entity XYZ to receive cash flows that are solely payments of principal and interest, the instrument fails the conditions to be measured at amortized cost.

B.10 Definition of a Derivative: Initial Net Investment

Many derivative instruments, such as futures contracts and exchange traded written options, require margin accounts. Is the margin account part of the initial net investment?

No. The margin account is not part of the initial net investment in a derivative instrument. Margin accounts are a form of collateral for the counterparty or clearing house and may take the form of cash, securities or other specified assets, typically liquid assets. Margin accounts are separate assets that are accounted for separately.

B.11 Definition of Held for Trading: Portfolio with a Recent Actual Pattern of Short-Term Profit-Taking

The definition of a financial asset or financial liability held for trading states that "a financial asset or financial liability is classified as held for trading if it is … part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking". What is a "portfolio" for the purposes of applying this definition?

Although the term "portfolio" is not explicitly defined in IPSAS 41, the context in which it is used suggests that a portfolio is a group of financial assets or financial liabilities that are managed as part of that group (paragraph 9 of IPSAS 41). If there is evidence of a recent actual pattern of short-term profit-taking on financial instruments included in such a portfolio, those financial instruments qualify as held for trading even though an individual financial instrument may in fact be held for a longer period of time.

B.12 Definition of Gross Carrying Amount: Perpetual Debt Instruments with Fixed or Market-Based Variable Rate

Sometimes entities purchase or issue debt instruments that are required to be measured at amortized cost and in respect of which the issuer has no obligation to repay the gross carrying amount. The interest rate may be fixed or variable. Would the difference between the initial amount paid or received and zero ("the maturity amount") be amortized immediately on initial recognition for the purpose of determining amortized cost if the rate of interest is fixed or specified as a market-based variable rate?

No. Since there are no repayment of the gross carrying amount, there is no amortization of the difference between the initial amount and the maturity amount if the rate of interest is fixed or specified as a market-based variable rate. Because interest payments are fixed or market-based and will be paid in perpetuity, the amortized cost (the present value of the stream of future cash payments discounted at the effective interest rate) equals the gross carrying amount in each period.

B.13 Definition of Gross Carrying Amount: Perpetual Debt Instruments with Decreasing Interest Rate

If the stated rate of interest on a perpetual debt instrument decreases over time, would the gross carrying amount equal the contractual par amount in each period?

No. From an economic perspective, some or all of the contractual interest payments are repayments of the gross carrying amount. For example, the interest rate may be stated as 16 percent for the first ten years and as zero percent in subsequent periods. In that case, the initial amount is amortized to zero over the first ten years using the effective interest method, since a portion of the contractual interest payments represents repayments of the gross carrying amount. The gross carrying amount is zero after year ten because the present value of the stream of future cash payments in subsequent periods is zero (there are no further contractual cash payments in subsequent periods).

B.14 Example of Calculating the Gross Carrying Amount: Financial Asset

How is the gross carrying amount calculated for financial assets measured at amortized cost in accordance with IPSAS 41?

The gross carrying amount is calculated using the effective interest method. The effective interest rate inherent in a financial instrument is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument or, where appropriate, a shorter period to the gross carrying amount at initial recognition. The computation includes all fees and points paid or received that are an integral part of the effective interest rate, directly attributable transaction costs and all other premiums or discounts.

The following example illustrates how the gross carrying amount is calculated using the effective interest method. Entity A purchases a debt instrument with five years remaining to maturity for its fair value of CU1,000 (including transaction costs). The instrument has a contractual par amount of CU1,250 and carries fixed interest of 4.7 percent that is paid annually (CU1,250 × 4.7 percent = CU59 per year). The contract also specifies that the borrower has an option to prepay the instrument at par and that no penalty will be charged for prepayment. At inception, the entity expects the borrower not to prepay (and, therefore, the entity determines that the fair value of the prepayment feature is insignificant when the financial asset is initially recognized).

It can be shown that in order to allocate interest receipts and the initial discount over the term of the debt instrument at a constant rate on the carrying amount, they must be accrued at the rate of ten percent annually. The table below provides information about the gross carrying amount, interest revenue and cash flows of the debt instrument in each reporting period.

Year	**(a)**	**(b = a × 10 percent)**	**(c)**	**(d = a + b – c)**
	Gross carrying amount at the beginning of the year	**Interest revenue**	**Cash flows**	**Gross carrying amount at the end of the year**
20X0	1,000	100	59	1,041
20X1	1,041	104	59	1,086
20X2	1,086	109	59	1,136
20X3	1,136	113	59	1,190
20X4	1,190	119	1,250 + 59	–

On the first day of 20X2 the entity revises its estimate of cash flows. It now expects that 50 percent of the contractual par amount will be prepaid at the end of 20X2 and the remaining 50 percent at the end of 20X4. In accordance with paragraph AG161 of IPSAS 41, the gross carrying amount of the debt instrument in 20X2 is adjusted. The gross carrying amount is recalculated by discounting the amount the entity expects to receive in 20X2 and subsequent years using the original effective interest rate (10 percent). This results in the new gross carrying amount in 20X2 of CU1,138. The adjustment of CU52 (CU1,138 – CU1,086) is recorded in surplus or deficit in 20X2. The table below provides information about the gross carrying amount, interest revenue and cash flows as they would be adjusted taking into account the change in estimate.

Year	**(a)**	**(b = a × 10 percent)**	**(c)**	**(d = a + b – c)**
	Gross carrying amount at the beginning of the year	**Interest revenue**	**Cash flows**	**Gross carrying amount at the end of the year**
20X0	1,000	100	59	1,041
20X1	1,041	104	59	1,086
20X2	1,086 + 52	114	625 + 59	568
20X3	568	57	30	595
20X4	595	60	625 + 30	–

B.15 Example of Calculating the Gross Carrying Amount: Debt Instruments with Stepped Interest Payments

Sometimes entities purchase or issue debt instruments with a predetermined rate of interest that increases or decreases progressively ("stepped interest") over the term of the debt instrument. If a debt instrument with

stepped interest is issued at CU1,250 and has a maturity amount of CU1,250, would the gross carrying amount equal CU1,250 in each reporting period over the term of the debt instrument?

No. Although there is no difference between the initial amount and maturity amount, an entity uses the effective interest method to allocate interest payments over the term of the debt instrument to achieve a constant rate on the carrying amount.

The following example illustrates how the gross carrying amount is calculated using the effective interest method for an instrument with a predetermined rate of interest that increases or decreases over the term of the debt instrument ("stepped interest").

On January 1, 20X0, Entity A issues a debt instrument for a price of CU1,250. The contractual par amount is CU1,250 and the debt instrument is repayable on December 31, 20X4. The rate of interest is specified in the debt agreement as a percentage of the contractual par amount as follows: 6.0 percent in 20X0 (CU75), 8.0 percent in 20X1 (CU100), 10.0 percent in 20X2 (CU125), 12.0 percent in 20X3 (CU150), and 16.4 percent in 20X4 (CU205). In this case, the interest rate that exactly discounts the stream of future cash payments through maturity is ten percent. Therefore, cash interest payments are reallocated over the term of the debt instrument for the purposes of determining the gross carrying amount in each period. In each period, the gross carrying amount at the beginning of the period is multiplied by the effective interest rate of ten percent and added to the gross carrying amount. Any cash payments in the period are deducted from the resulting number. Accordingly, the gross carrying amount in each period is as follows:

Year	**(a)**	**(b = a × 10 percent)**	**(c)**	**(d = a + b – c)**
	Gross carrying amount at the beginning of the year	**Interest revenue**	**Cash flows**	**Gross carrying amount at the end of the year**
20X0	1,250	125	75	1,300
20X1	1,300	130	100	1,330
20X2	1,330	133	125	1,338
20X3	1,338	134	150	1,322
20X4	1,322	133	1,250 + 205	–

B.16 Regular Way Contracts: No Established Market

Can a contract to purchase a financial asset be a regular way contract if there is no established market for trading such a contract?

Yes. IPSAS 41 refers to terms that require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Marketplace is not limited to a formal stock exchange or organized over-the-counter market. Instead, it means the environment in which the financial asset is customarily exchanged. An acceptable time frame would be the period reasonably and customarily required for the parties to complete the transaction and prepare and execute closing documents.

For example, a market for private issue financial instruments can be a marketplace.

B.17 Regular Way Contracts: Forward Contract

Entity ABC enters into a forward contract to purchase one million of M's ordinary shares in two months for CU10 per share. The contract is not an exchange-traded contract. The contract requires ABC to take physical delivery of the shares and pay the counterparty CU10 million in cash. M's shares trade in an active public

market at an average of 100,000 shares a day. Regular way delivery is three days. Is the forward contract regarded as a regular way contract?

No. The contract must be accounted for as a derivative because it is not settled in the way established by regulation or convention in the marketplace concerned.

B.18 Regular Way Contracts: Which Customary Settlement Provisions Apply?

If an entity's financial instruments trade in more than one active market, and the settlement provisions differ in the various active markets, which provisions apply in assessing whether a contract to purchase those financial instruments is a regular way contract?

The provisions that apply are those in the market in which the purchase actually takes place.

To illustrate: Entity XYZ purchases one million shares of Entity ABC on a US stock exchange, for example, through a broker. The settlement date of the contract is six business days later. Trades for equity shares on US exchanges customarily settle in three business days. Because the trade settles in six business days, it does not meet the exemption as a regular way trade.

However, if XYZ did the same transaction on a foreign exchange that has a customary settlement period of six business days, the contract would meet the exemption for a regular way trade.

B.19 Regular Way Contracts: Share Purchase by Call Option

Entity A purchases a call option in a public market permitting it to purchase 100 shares of Entity XYZ at any time over the next three months at a price of CU100 per share. If Entity A exercises its option, it has 14 days to settle the transaction according to regulation or convention in the options market. XYZ shares are traded in an active public market that requires three-day settlement. Is the purchase of shares by exercising the option a regular way purchase of shares?

Yes. The settlement of an option is governed by regulation or convention in the marketplace for options and, therefore, upon exercise of the option it is no longer accounted for as a derivative because settlement by delivery of the shares within 14 days is a regular way transaction.

B.20 Recognition and Derecognition of Financial Liabilities Using Trade Date or Settlement Date Accounting

IPSAS 41 has special rules about recognition and derecognition of financial assets using trade date or settlement date accounting. Do these rules apply to transactions in financial instruments that are classified as financial liabilities, such as transactions in deposit liabilities and trading liabilities?

No. IPSAS 41 does not contain any specific requirements about trade date accounting and settlement date accounting in the case of transactions in financial instruments that are classified as financial liabilities. Therefore, the general recognition and derecognition requirements in paragraphs 10 and 35 of IPSAS 41 apply. Paragraph 10 of IPSAS 41 states that financial liabilities are recognized on the date the entity 'becomes a party to the contractual provisions of the instrument'. Such contracts generally are not recognized unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of IPSAS 41. Paragraph 35 of IPSAS 41 specifies that financial liabilities are derecognized only when they are extinguished, i.e., when the obligation specified in the contract is discharged or canceled or expires.

Section C Embedded derivatives

C.1 Embedded Derivatives: Separation of Host Debt Instrument

If an embedded non-option derivative is required to be separated from a host debt instrument, how are the terms of the host debt instrument and the embedded derivative identified? For example, would the host debt instrument be a fixed rate instrument, a variable rate instrument or a zero coupon instrument?

The terms of the host debt instrument reflect the stated or implied substantive terms of the hybrid contract. In the absence of implied or stated terms, the entity makes its own judgment of the terms. However, an entity may not identify a component that is not specified or may not establish terms of the host debt instrument in a manner that would result in the separation of an embedded derivative that is not already clearly present in the hybrid contract, that is to say, it cannot create a cash flow that does not exist. For example, if a five-year debt instrument has fixed interest payments of CU40,000 annually and a contractual payment at maturity of CU1,000,000 multiplied by the change in an equity price index, it would be inappropriate to identify a floating rate host contract and an embedded equity swap that has an offsetting floating rate leg in lieu of identifying a fixed rate host. In that example, the host contract is a fixed rate debt instrument that pays CU40,000 annually because there are no floating interest rate cash flows in the hybrid contract.

In addition, the terms of an embedded non-option derivative, such as a forward or swap, must be determined so as to result in the embedded derivative having a fair value of zero at the inception of the hybrid contract. If it were permitted to separate embedded non-option derivatives on other terms, a single hybrid contract could be decomposed into an infinite variety of combinations of host debt instruments and embedded derivatives, for example, by separating embedded derivatives with terms that create leverage, asymmetry or some other risk exposure not already present in the hybrid contract. Therefore, it is inappropriate to separate an embedded non-option derivative on terms that result in a fair value other than zero at the inception of the hybrid contract. The determination of the terms of the embedded derivative is based on the conditions existing when the financial instrument was issued.

C.2 Embedded Derivatives: Separation of Embedded Option

The response to Question C.1 states that the terms of an embedded non-option derivative should be determined so as to result in the embedded derivative having a fair value of zero at the initial recognition of the hybrid contract. When an embedded option-based derivative is separated, must the terms of the embedded option be determined so as to result in the embedded derivative having either a fair value of zero or an intrinsic value of zero (that is to say, be at the money) at the inception of the hybrid contract?

No. The economic behavior of a hybrid contract with an option-based embedded derivative depends critically on the strike price (or strike rate) specified for the option feature in the hybrid contract, as discussed below. Therefore, the separation of an option-based embedded derivative (including any embedded put, call, cap, floor, caption, floortion or swaption feature in a hybrid contract) should be based on the stated terms of the option feature documented in the hybrid contract. As a result, the embedded derivative would not necessarily have a fair value or intrinsic value equal to zero at the initial recognition of the hybrid contract.

If an entity were required to identify the terms of an embedded option-based derivative so as to achieve a fair value of the embedded derivative of zero, the strike price (or strike rate) generally would have to be determined so as to result in the option being infinitely out of the money. This would imply a zero probability of the option feature being exercised. However, since the probability of the option feature in a hybrid contract being exercised generally is not zero, it would be inconsistent with the likely economic behavior of the hybrid contract to assume an initial fair value of zero. Similarly, if an entity were required to identify the terms of an embedded option-based derivative so as to achieve an intrinsic value of zero for the embedded derivative, the strike price (or strike rate) would have to be assumed to equal the price (or rate) of the underlying variable at the initial recognition of the hybrid contract. In this case, the fair value of the option would consist only of time value. However, such an assumption would not be consistent with the likely economic behavior of the hybrid contract, including the probability of the option feature being exercised, unless the agreed strike price was indeed equal to the price (or rate) of the underlying variable at the initial recognition of the hybrid contract.

The economic nature of an option-based embedded derivative is fundamentally different from a forward-based embedded derivative (including forwards and swaps), because the terms of a forward are such that a payment based on the difference between the price of the underlying and the forward price will occur at a specified date, while the terms of an option are such that a payment based on the difference between the price of the underlying and the strike price of the option may or may not occur depending on the relationship between the agreed strike price and the price of the underlying at a specified date or dates in the future. Adjusting the strike price of an option-based embedded derivative,

therefore, alters the nature of the hybrid contract. On the other hand, if the terms of a non-option embedded derivative in a host debt instrument were determined so as to result in a fair value of any amount other than zero at the inception of the hybrid contract, that amount would essentially represent a borrowing or lending. Accordingly, as discussed in the answer to Question C.1, it is not appropriate to separate a non-option embedded derivative in a host debt instrument on terms that result in a fair value other than zero at the initial recognition of the hybrid contract.

C.3 Embedded Derivatives: Equity Kicker

In some instances, investment entities providing subordinated loans agree that if and when the borrower lists its shares on a stock exchange, the venture capital entity is entitled to receive shares of the borrowing entity free of charge or at a very low price (an "equity kicker") in addition to the contractual payments. As a result of the equity kicker feature, the interest on the subordinated loan is lower than it would otherwise be. Assuming that the subordinated loan is not measured at fair value with changes in fair value recognized in surplus or deficit (paragraph 49(c) of IPSAS 41), does the equity kicker feature meet the definition of an embedded derivative even though it is contingent upon the future listing of the borrower?

Yes. The economic characteristics and risks of an equity return are not closely related to the economic characteristics and risks of a host debt instrument (paragraph 49(a) of IPSAS 41). The equity kicker meets the definition of a derivative because it has a value that changes in response to the change in the price of the shares of the borrower, it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and it is settled at a future date (paragraph 49(b) and paragraph 9 of IPSAS 41). The equity kicker feature meets the definition of a derivative even though the right to receive shares is contingent upon the future listing of the borrower. Paragraph AG7 of IPSAS 41 states that a derivative could require a payment as a result of some future event that is unrelated to a notional amount. An equity kicker feature is similar to such a derivative except that it does not give a right to a fixed payment, but an option right, if the future event occurs.

C.4 Embedded Derivatives: Synthetic Instruments

Entity A issues a five-year floating rate debt instrument. At the same time, it enters into a five-year pay-fixed, receive-variable interest rate swap with Entity B. Entity A regards the combination of the debt instrument and swap as a synthetic fixed rate instrument. Entity A contends that separate accounting for the swap is inappropriate since paragraph AG106(a) of IPSAS 41 requires an embedded derivative to be classified together with its host instrument if the derivative is linked to an interest rate that can change the amount of contractual interest that would otherwise be paid or received on the host debt contract. Is the entity's analysis correct?

No. Embedded derivative instruments are terms and conditions that are included in non-derivative host contracts. It is generally inappropriate to treat two or more separate financial instruments as a single combined instrument ("synthetic instrument" accounting) for the purpose of applying IPSAS 41. Each of the financial instruments has its own terms and conditions and each may be transferred or settled separately. Therefore, the debt instrument and the swap are classified separately. The transactions described here differ from the transactions discussed in Question B.6, which had no substance apart from the resulting interest rate swap.

C.5 Embedded Derivatives: Purchases and Sales Contracts in Foreign Currency Instruments

A supply contract provides for payment in a currency other than (a) the functional currency of either party to the contract, (b) the currency in which the product is routinely denominated in commercial transactions around the world and (c) the currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place. Is there an embedded derivative that should be separated under IPSAS 41?

Yes. To illustrate: a Norwegian entity agrees to sell oil to an entity in France. The oil contract is denominated in Swiss francs, although oil contracts are routinely denominated in US dollars in commercial transactions around the world, and

Norwegian krone are commonly used in contracts to purchase or sell non-financial items in Norway. Neither entity carries out any significant activities in Swiss francs. In this case, the Norwegian entity regards the supply contract as a host contract with an embedded foreign currency forward to purchase Swiss francs. The French entity regards the supply contact as a host contract with an embedded foreign currency forward to sell Swiss francs. Each entity includes fair value changes on the currency forward in surplus or deficit unless the reporting entity designates it as a cash flow hedging instrument, if appropriate.

C.6 Embedded Foreign Currency Derivatives: Unrelated Foreign Currency Provision

Entity A, which measures items in its financial statements on the basis of the euro (its functional currency), enters into a contract with Entity B, which has the Norwegian krone as its functional currency, to purchase oil in six months for 1,000 US dollars. The host oil contract is not within the scope of IPSAS 41 because it was entered into and continues to be for the purpose of delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (paragraphs 5 and AG8 of IPSAS 41) and the entity has not irrevocably designated it as measured at fair value through surplus or deficit in accordance with paragraph 6 of IPSAS 41. The oil contract includes a leveraged foreign exchange provision that states that the parties, in addition to the provision of, and payment for, oil will exchange an amount equal to the fluctuation in the exchange rate of the US dollar and Norwegian krone applied to a notional amount of 100,000 US dollars. Under paragraph 49 of IPSAS 41, is that embedded derivative (the leveraged foreign exchange provision) regarded as closely related to the host oil contract?

No, that leveraged foreign exchange provision is separated from the host oil contract because it is not closely related to the host oil contract (paragraph AG106(d) of IPSAS 41).

The payment provision under the host oil contract of 1,000 US dollars can be viewed as a foreign currency derivative because the US dollar is neither Entity A's nor Entity B's functional currency. This foreign currency derivative would not be separated because it follows from paragraph AG106(d) of IPSAS 41 that a crude oil contract that requires payment in US dollars is not regarded as a host contract with a foreign currency derivative.

The leveraged foreign exchange provision that states that the parties will exchange an amount equal to the fluctuation in the exchange rate of the US dollar and Norwegian krone applied to a notional amount of 100,000 US dollars is in addition to the required payment for the oil transaction. It is unrelated to the host oil contract and therefore separated from the host oil contract and accounted for as an embedded derivative under paragraph 49 of IPSAS 41.

C.7 Embedded Foreign Currency Derivatives: Currency of International Commerce

Paragraph AG106(d) of IPSAS 41 refers to the currency in which the price of the related goods or services is routinely denominated in commercial transactions around the world. Could it be a currency that is used for a certain product or service in commercial transactions within the local area of one of the substantial parties to the contract?

No. The currency in which the price of the related goods or services is routinely denominated in commercial transactions around the world is only a currency that is used for similar transactions all around the world, not just in one local area. For example, if cross-border transactions in natural gas in North America are routinely denominated in US dollars and such transactions are routinely denominated in euro in Europe, neither the US dollar nor the euro is a currency in which the goods or services are routinely denominated in commercial transactions around the world.

C.8 Embedded Derivatives: Holder Permitted, but not Required, to Settle Without Recovering Substantially All of its Recognized Investment

If the terms of a combined contract permit, but do not require, the holder to settle the combined contract in a manner that causes it not to recover substantially all of its recognized investment and the issuer does not have such a right (for example, a puttable debt instrument), does the contract satisfy the condition in

paragraph AG106(a) of IPSAS 41 that the holder would not recover substantially all of its recognized investment?

No. The condition that "the holder would not recover substantially all of its recognized investment" is not satisfied if the terms of the combined contract permit, but do not require, the investor to settle the combined contract in a manner that causes it not to recover substantially all of its recognized investment and the issuer has no such right. Accordingly, an interest-bearing host contract with an embedded interest rate derivative with such terms is regarded as closely related to the host contract. The condition that "the holder would not recover substantially all of its recognized investment" applies to situations in which the holder can be forced to accept settlement at an amount that causes the holder not to recover substantially all of its recognized investment.

Section D Recognition and Derecognition

D.1 Initial Recognition

D.1.1 Recognition: Cash Collateral

Entity B transfers cash to Entity A as collateral for another transaction with Entity A (for example, a securities borrowing transaction). The cash is not legally segregated from Entity A's assets. Should Entity A recognize the cash collateral it has received as an asset?

Yes. The ultimate realization of a financial asset is its conversion into cash and, therefore, no further transformation is required before the economic benefits of the cash transferred by Entity B can be realized by Entity A. Therefore, Entity A recognizes the cash as an asset and a payable to Entity B while Entity B derecognizes the cash and recognizes a receivable from Entity A.

D.2 Regular Way Purchase or Sale of a Financial Asset

D.2.1 Trade Date vs Settlement Date: Amounts to be Recorded for a Purchase

How are the trade date and settlement date accounting principles in IPSAS 41 applied to a purchase of a financial asset?

The following example illustrates the application of the trade date and settlement date accounting principles in IPSAS 41 for a purchase of a financial asset. On December 29, 20X1, an entity commits itself to purchase a financial asset for CU1,000, which is its fair value on commitment (trade) date. Transaction costs are immaterial. On December 31, 20X1 (financial year-end) and on January 4, 20X2 (settlement date) the fair value of the asset is CU1,002 and CU1,003, respectively. The amounts to be recorded for the asset will depend on how it is classified and whether trade date or settlement date accounting is used, as shown in the two tables below.

Settlement date accounting			
Balances	**Financial assets measured at amortized cost**	**Financial assets measured at fair value through net assets/equity**	**Financial assets measured at fair value through surplus/deficit**
December 29, 20X1			
Financial asset	–	–	–
Financial liability	–	–	–
December 31, 20X1			
Receivable	–	2	2

Settlement date accounting			
Financial asset	–	–	–
Financial liability	–	–	–
Net assets/equity (fair value adjustment)	–	(2)	–
Accumulated surplus or deficit (through surplus or deficit)	–	–	(2)
January 4, 20X2			
Receivable	–	–	–
Financial asset	1,000	1,003	1,003
Financial liability	–	–	–
Net assets/equity (fair value adjustment)	–	(3)	–
Accumulated surplus or deficit (through surplus or deficit)	–	–	(3)

Trade date accounting			
Balances	**Financial assets measured at amortized cost**	**Financial assets measured at fair value through net assets/equity**	**Financial assets measured at fair value through surplus or deficit**
December 29, 20X1			
Financial asset	1,000	1,000	1,000
Financial liability	(1,000)	(1,000)	(1,000)
December 31, 20X1			
Receivable	–	–	–
Financial asset	1,000	1,002	1,002
Financial liability	(1,000)	(1,000)	(1,000)
Net assets/equity (fair value adjustment)	–	(2)	–
Accumulated surplus or deficit (through surplus or deficit)	–	–	(2)
January 4, 20X2			
Receivable	–	–	–
Financial asset	1,000	1,003	1,003

Settlement date accounting			
Financial liability	–	–	–
Net assets/equity (fair value adjustment)	–	(3)	–
Accumulated surplus or deficit (through surplus or deficit)	–	–	(3)

D.2.2 Trade Date vs Settlement Date: Amounts to be Recorded for a Sale

How are the trade date and settlement date accounting principles in IPSAS 41 applied to a sale of a financial asset?

The following example illustrates the application of the trade date and settlement date accounting principles in IPSAS 41 for a sale of a financial asset. On December 29, 20X2 (trade date) an entity enters into a contract to sell a financial asset for its current fair value of CU1,010. The asset was acquired one year earlier for CU1,000 and its gross carrying amount is CU1,000. On December 31, 20X2 (financial year-end), the fair value of the asset is CU1,012. On January 4, 20X3 (settlement date), the fair value is CU1,013. The amounts to be recorded will depend on how the asset is classified and whether trade date or settlement date accounting is used as shown in the two tables below (any loss allowance or interest revenue on the financial asset is disregarded for the purpose of this example).

A change in the fair value of a financial asset that is sold on a regular way basis is not recorded in the financial statements between trade date and settlement date even if the entity applies settlement date accounting because the seller's right to changes in the fair value ceases on the trade date.

Settlement date accounting			
Balances	**Financial assets measured at amortized cost**	**Financial assets measured at fair value through net assets/equity**	**Financial assets measured at fair value through surplus or deficit**
December 29, 20X2			
Receivable	–	–	–
Financial asset	1,000	1,010	1,010
Net assets/equity (fair value adjustment)	–	10	–
Accumulated surplus or deficit (through surplus or deficit)	–	–	10
December 31, 20X2			
Receivable	–	–	–
Financial asset	1,000	1,010	1,010
Net assets/equity (fair value adjustment)	–	10	–
Accumulated surplus or deficit (through surplus or deficit)	–	–	10

Settlement date accounting			
January 4, 20X3			
Net assets/equity (fair value adjustment)	–	–	–
Accumulated surplus or deficit (through surplus or deficit)	10	10	10

Trade date accounting			
Balances	**Financial assets measured at amortized cost**	**Financial assets measured at fair value through net assets/equity**	**Financial assets measured at fair value through surplus or deficit**
December 29, 20X2			
Receivable	1,010	1,010	1,010
Financial asset	–	–	–
Net assets/equity (fair value adjustment)	–	–	–
Accumulated surplus or deficit (through surplus or deficit)	10	10	10
December 31, 20X2			
Receivable	1,010	1,010	1,010
Financial asset	–	–	–
Net assets/equity (fair value adjustment)	–	–	–
Accumulated surplus or deficit (through surplus or deficit)	10	10	10
January 4, 20X3			
Net assets/equity (fair value adjustment)	–	–	–
Accumulated surplus or deficit (through surplus or deficit)	10	10	10

D.2.3 Settlement Date Accounting: Exchange of Non-Cash Financial Assets

If an entity recognizes sales of financial assets using settlement date accounting, would a change in the fair value of a financial asset to be received in exchange for the non-cash financial asset that is sold be recognized in accordance with paragraph 105 of IPSAS 41?

It depends. Any change in the fair value of the financial asset to be received would be accounted for under paragraph 105 of IPSAS 41 if the entity applies settlement date accounting for that category of financial assets. However, if the entity classifies the financial asset to be received in a category for which it applies trade date accounting,

the asset to be received is recognized on the trade date as described in paragraph AG19 of IPSAS 41. In that case, the entity recognizes a liability of an amount equal to the carrying amount of the financial asset to be delivered on settlement date.

To illustrate: on December 29, 20X2 (trade date) Entity A enters into a contract to sell Note Receivable A, which is measured at amortized cost, in exchange for Bond B, which meets the definition of held for trading and is measured at fair value. Both assets have a fair value of CU1,010 on December 29, while the amortized cost of Note Receivable A is CU1,000. Entity A uses settlement date accounting for financial assets measured at amortized cost and trade date accounting for assets that meet the definition of held for trading. On December 31, 20X2 (financial year-end), the fair value of Note Receivable A is CU1,012 and the fair value of Bond B is CU1,009. On January 4, 20X3, the fair value of Note Receivable A is CU1,013 and the fair value of Bond B is CU1,007. The following entries are made:

December 29, 20X2

Dr	Bond B		CU1,010	
	Cr	Payable		CU1,010

December 31, 20X2

Dr	Trading loss		CU1	
	Cr	Bond B		CU1

January 4, 20X3

Dr	Payable		CU1,010	
Dr	Trading loss		CU2	
	Cr	Note Receivable A		CU1,000
	Cr	Bond B		CU2
	Cr	Realization gain		CU10

Section E Measurement

E.1 Initial Measurement of Financial Assets and Financial Liabilities

E.1.1 Initial Measurement: Transaction Costs

Transaction costs should be included in the initial measurement of financial assets and financial liabilities other than those at fair value through surplus or deficit. How should this requirement be applied in practice?

For financial assets not measured at fair value through surplus or deficit, transaction costs are added to the fair value at initial recognition. For financial liabilities, transaction costs are deducted from the fair value at initial recognition.

For financial instruments that are measured at amortized cost, transaction costs are subsequently included in the calculation of amortized cost using the effective interest method and, in effect, amortized through surplus or deficit over the life of the instrument.

For financial instruments that are measured at fair value through net assets/equity in accordance with either paragraphs 41 and 111 or paragraphs 43 and 106 of IPSAS 41, transaction costs are recognized in net assets/equity as part of a change in fair value at the next remeasurement. If the financial asset is measured in accordance with paragraphs 41 and 111 of IPSAS 41, those transaction costs are amortized to surplus or deficit using the effective interest method and, in effect, amortized through surplus or deficit over the life of the instrument.

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

E.2 Gains and Losses

E.2.1 IPSAS 41 and IPSAS 4—Financial Assets Measured at Fair Value through Net Assets/Equity: Separation of Currency Component

A financial asset measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41 is treated as a monetary item. Therefore, the entity recognizes changes in the carrying amount relating to changes in foreign exchange rates in surplus or deficit in accordance with paragraphs 27(a) and 32 of IPSAS 4 and other changes in the carrying amount in net assets/equity in accordance with IPSAS 41. How is the cumulative gain or loss that is recognized in net assets/equity determined?

It is the difference between the amortized cost of the financial asset[58] and the fair value of the financial asset in the functional currency of the reporting entity. For the purpose of applying paragraph 32 of IPSAS 4 the asset is treated as an asset measured at amortized cost in the foreign currency.

To illustrate: on December 31, 20X1 Entity A acquires a bond denominated in a foreign currency (FC) for its fair value of FC1,000. The bond has five years remaining to maturity and a contractual par amount of FC1,250, carries fixed interest of 4.7 percent that is paid annually (FC1,250 × 4.7 percent = FC59 per year), and has an effective interest rate of 10 percent. Entity A classifies the bond as subsequently measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41, and thus recognizes gains and losses in net assets/equity. The entity's functional currency is its local currency (LC). The exchange rate is FC1 to LC1.5 and the carrying amount of the bond is LC1,500 (= FC1,000 × 1.5).

Dr	Bond		LC1,500	
	Cr	Cash		LC1,500

On December 31, 20X2, the foreign currency has appreciated and the exchange rate is FC1 to LC2. The fair value of the bond is FC1,060 and thus the carrying amount is LC2,120 (= FC1,060 × 2). The amortized cost is FC1,041 (= LC2,082). In this case, the cumulative gain or loss to be recognized in net assets/equity and accumulated in net assets/equity is the difference between the fair value and the amortized cost on December 31, 20X2, i.e., LC38 (= LC2,120 – LC2,082).

Interest received on the bond on December 31, 20X2 is FC59 (= LC118). Interest revenue determined in accordance with the effective interest method is FC100 (= FC1,000 × 10 percent). The average exchange rate during the year is FC1 to LC1.75. For the purpose of this question, it is assumed that the use of the average exchange rate provides a reliable approximation of the spot rates applicable to the accrual of interest revenue during the year (see paragraph 25 of IPSAS 41). Thus, reported interest revenue is LC175 (= FC100 × 1.75) including accretion of the initial discount of LC72 (= [FC100 – FC59] × 1.75). Accordingly, the exchange difference on the bond that is recognized in surplus or deficit is LC510 (= LC2,082 – LC1,500 – LC72). Also, there is an exchange gain on the interest receivable for the year of LC15 (= FC59 × [2.00 – 1.75]).

[58] The objective of this example is to illustrate the separation of the currency component for a financial asset that is measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41. Consequently, for simplicity, this example does not reflect the effect of the impairment requirements in paragraphs 73-93 of IPSAS 41.

Dr	Bond		LC620	
Dr	Cash		LC118	
	Cr	Interest revenue		LC175
	Cr	Exchange gain		LC525
	Cr	Fair value change in net assets/equity		LC38

On December 31, 20X3, the foreign currency has appreciated further and the exchange rate is FC1 to LC2.50. The fair value of the bond is FC1,070 and thus the carrying amount is LC2,675 (= FC1,070 × 2.50). The amortized cost is FC1,086 (= LC2,715). The cumulative gain or loss to be accumulated in net assets/equity is the difference between the fair value and the amortized cost on December 31, 20X3, i.e., negative LC40 (= LC2,675 – LC2,715). Thus, the amount recognized in net assets/equity equals the change in the difference during 20X3 of LC78 (= LC40 + LC38).

Interest received on the bond on December 31, 20X3 is FC59 (= LC148). Interest revenue determined in accordance with the effective interest method is FC104 (= FC1,041 × 10 percent). The average exchange rate during the year is FC1 to LC2.25. For the purpose of this question, it is assumed that the use of the average exchange rate provides a reliable approximation of the spot rates applicable to the accrual of interest revenue during the year (see paragraph 25 of IPSAS 4). Thus, recognized interest revenue is LC234 (= FC104 × 2.25) including accretion of the initial discount of LC101 (= [FC104 – FC59] × 2.25). Accordingly, the exchange difference on the bond that is recognized in surplus or deficit is LC532 (= LC2,715 – LC2,082 – LC101). Also, there is an exchange gain on the interest receivable for the year of LC15 (= FC59 × [2.50 – 2.25]).

Dr	Bond		LC555	
Dr	Cash		LC148	
Dr	Fair value change in net assets/equity		LC78	
	Cr	Interest revenue		LC234
	Cr	Exchange gain		LC547

E.2.2 IPSAS 41 and IPSAS 4—Exchange Differences Arising on Translation of Foreign Entities: Net Assets/Equity or Surplus or Deficit?

Paragraphs 37 and 57 of IPSAS 4 state that all exchange differences resulting from translating the financial statements of a foreign operation should be recognized in net assets/equity until disposal of the net investment. This would include exchange differences arising from financial instruments carried at fair value, which would include both financial assets measured at fair value through surplus or deficit and financial assets that are measured at fair value through net assets/equity in accordance with IPSAS 41.

IPSAS 41 requires that changes in fair value of financial assets measured at fair value through surplus or deficit should be recognized in surplus or deficit and changes in fair value of financial assets measured at fair value through net assets/equity should be recognized in net assets/equity.

If the foreign operation is a controlled entity whose financial statements are consolidated with those of its controlling entity, in the consolidated financial statements how are IPSAS 41 and paragraph 44 of IPSAS 4 applied?

IPSAS 41 applies in the accounting for financial instruments in the financial statements of a foreign operation and IPSAS 4 applies in translating the financial statements of a foreign operation for incorporation in the financial statements of the reporting entity.

To illustrate: Entity A is domiciled in Country X and its functional currency and presentation currency are the local currency of Country X (LCX). A has a foreign controlled entity (Entity B) in Country Y whose functional currency is the local currency of Country Y (LCY). B is the owner of a debt instrument, which meets the definition of held for trading and is therefore measured at fair value through surplus or deficit in accordance with IPSAS 41.

In B's financial statements for year 20X0, the fair value and carrying amount of the debt instrument is LCY100 in the local currency of Country Y. In A's consolidated financial statements, the asset is translated into the local currency of Country X at the spot exchange rate applicable at the end of the reporting period (2.00). Thus, the carrying amount is LCX200 (= LCY100 × 2.00) in the consolidated financial statements.

At the end of year 20X1, the fair value of the debt instrument has increased to LCY110 in the local currency of Country Y. B recognizes the trading asset at LCY110 in its statement of financial position and recognizes a fair value gain of LCY10 in its surplus or deficit. During the year, the spot exchange rate has increased from 2.00 to 3.00 resulting in an increase in the fair value of the instrument from LCX200 to LCX330 (= LCY110 × 3.00) in the currency of Country X. Therefore, Entity A recognizes the trading asset at LCX330 in its consolidated financial statements.

Entity A translates the statement of changes in net assets/equity of B "at the exchange rates at the dates of the transactions" (paragraph 44(b) of IPSAS 4). Since the fair value gain has accrued through the year, A uses the average rate as a practical approximation ([3.00 + 2.00] / 2 = 2.50, in accordance with paragraph 25 of IPSAS 4). Therefore, while the fair value of the trading asset has increased by LCX130 (= LCX330 – LCX200), Entity A recognizes only LCX25 (= LCY10 × 2.5) of this increase in consolidated surplus or deficit to comply with paragraph 44(b) of IPSAS 4. The resulting exchange difference, i.e., the remaining increase in the fair value of the debt instrument (LCX130 – LCX25 = LCX105), is accumulated in net assets/equity until the disposal of the net investment in the foreign operation in accordance with paragraph 57 of IPSAS 4.

E.2.3 IPSAS 41 and IPSAS 4—Interaction Between IPSAS 41 and IPSAS 4

IPSAS 41 includes requirements about the measurement of financial assets and financial liabilities and the recognition of gains and losses on remeasurement in surplus or deficit. IPSAS 4 includes rules about the reporting of foreign currency items and the recognition of exchange differences in surplus or deficit. In what order are IPSAS 4 and IPSAS 41 applied?

Statement of Financial Position

Generally, the measurement of a financial asset or financial liability at fair value or amortized cost is first determined in the foreign currency in which the item is denominated in accordance with IPSAS 41. Then, the foreign currency amount is translated into the functional currency using the closing rate or a historical rate in accordance with IAS 21 (paragraph AG224 of IPSAS 41). For example, if a monetary financial asset (such as a debt instrument) is measured at amortized cost in accordance with IPSAS 41, amortized cost is calculated in the currency of denomination of that financial asset. Then, the foreign currency amount is recognized using the closing rate in the entity's financial statements (paragraph 27 of IPSAS 4). That applies regardless of whether a monetary item is measured at amortized cost or fair value in the foreign currency (paragraph 28 of IPSAS 4). A non-monetary financial asset (such as an investment in an equity instrument) that is measured at fair value in the foreign currency is translated using the closing rate (paragraph 27 (c) of IPSAS 4).

As an exception, if the financial asset or financial liability is designated as a hedged item in a fair value hedge of the exposure to changes in foreign currency rates under IPSAS 41 (or IPSAS 29 if an entity chooses as its accounting policy to continue to apply the hedge accounting requirements in IPSAS 29), the hedged item is remeasured for changes in foreign currency rates even if it would otherwise have been recognized using a historical rate under IPSAS 4

(paragraph 137 of IPSAS 41 or paragraph 99 of IPSAS 29), i.e., the foreign currency amount is recognized using the closing rate. This exception applies to non-monetary items that are carried in terms of historical cost in the foreign currency and are hedged against exposure to foreign currency rates (paragraph 27(b) of IPSAS 4).

Surplus or Deficit

The recognition of a change in the carrying amount of a financial asset or financial liability in surplus or deficit depends on a number of factors, including whether it is an exchange difference or other change in carrying amount, whether it arises on a monetary item (for example, most debt instruments) or non-monetary item (such as most equity investments), whether the associated asset or liability is designated as a cash flow hedge of an exposure to changes in foreign currency rates, and whether it results from translating the financial statements of a foreign operation. The issue of recognizing changes in the carrying amount of a financial asset or financial liability held by a foreign operation is addressed in a separate question (see Question E.2.2).

Any exchange difference arising on recognizing a monetary item at a rate different from that at which it was initially recognized during the period, or recognized in previous financial statements, is recognized in surplus or deficit in accordance with IPSAS 4 (paragraph AG224 of IPSAS 41, paragraphs 32 and 37 of IPSAS 4), unless the monetary item is designated as a cash flow hedge of a highly probable forecast transaction in foreign currency, in which case the requirements for recognition of gains and losses on cash flow hedges (paragraph 140 of IPSAS 41 or paragraph 106 of IPSAS 29). Differences arising from recognizing a monetary item at a foreign currency amount different from that at which it was previously recognized are accounted for in a similar manner, since all changes in the carrying amount relating to foreign currency movements should be treated consistently. All other changes in the statement of financial position measurement of a monetary item are recognized in surplus or deficit in accordance with IPSAS 41. For example, although an entity recognizes gains and losses on financial assets measured at fair value through net assets/equity in net assets/equity (paragraphs 111 and AG225 of IPSAS 41), the entity nevertheless recognizes the changes in the carrying amount relating to changes in foreign exchange rates in surplus or deficit (paragraph 27(a) of IPSAS 4).

Any changes in the carrying amount of a non-monetary item are recognized in surplus or deficit or in net assets/equity in accordance with IPSAS 41. For example, for an investment in an equity instrument that is presented in accordance with paragraph 106 of IPSAS 41, the entire change in the carrying amount, including the effect of changes in foreign currency rates, is presented in net assets/equity (paragraph AG226 of IPSAS 41). If the non-monetary item is designated as a cash flow hedge of an unrecognized firm commitment or a highly probable forecast transaction in foreign currency, the requirements for recognition of gains and losses on cash flow hedges (paragraph 140 of IPSAS 41 or paragraph 106 of IPSAS 29).

When some portion of the change in carrying amount is recognized in net assets/equity and some portion is recognized in surplus or deficit, for example, if the amortized cost of a foreign currency bond measured at fair value through net assets/equity has increased in foreign currency (resulting in a gain in surplus or deficit) but its fair value has decreased in foreign currency (resulting in a loss recognized in net assets/equity), an entity cannot offset those two components for the purposes of determining gains or losses that should be recognized in surplus or deficit or in net assets/equity.

E.2.4—Valuation of Unquoted Equity Instruments

What valuation technique is most appropriate to apply when determining the fair value of these unquoted equity instruments?

Public sector entities have a wide range of valuation techniques available when determining the fair value of an unquoted equity instrument. IPSAS 41 does not prescribe the use of a specific valuation technique, but instead encourages the use of professional judgment and the consideration of all the facts and circumstances surrounding the section of an appropriate measurement technique. Figure 1 illustrates various valuations techniques that may be applicable based on the transactions facts and circumstances. This is not an exhaustive list.

Figure 1 – Valuation approaches and valuation techniques	
Valuation approach	Valuation techniques
Market approach	• Transaction price paid for an identical or similar instrument of an investee (see illustrative example 23) • Comparable company valuation multiples
Other approaches	• Discounted cash flow method (see illustrative example 24) • Dividend discount model • Constant growth model (see illustrative example 25) • Capitalization model • Adjusted net asset method (see illustrative example 26)

The economic characteristics of unquoted equity instruments and the information that is reasonably available to a public sector entity are two of the factors that should be considered when selecting the most appropriate valuation technique. For example, an entity is likely to place more emphasis on the comparable company valuation multiples technique when there are sufficiently comparable company peers or when the background or details of the observed transactions are known. Similarly, a public sector entity is likely to place more emphasis on the discounted cash flow method when, for example:

(a) The cash flows of a public sector entity present unique characteristics such as periods of unequal rates of growth (for example, a period of high growth that stabilizes later to more steady levels of growth).

(b) Alternatively, when measuring the fair value of unquoted equity instruments, a public sector entity might conclude that, on the basis of the specific facts and circumstances (for example, the nature of the investment, the history and stage of the development of the investment, the nature of the investment's assets and liabilities, its capital structure etc.).

(c) It is appropriate to apply the adjusted net asset method. Consequently, given specific facts and circumstances, one valuation technique might be more appropriate than another.

Some of the factors that a public sector entity will need to consider when selecting the most appropriate valuation technique(s) include (this list is not exhaustive):

1. The information that is reasonably available to a public sector entity;
2. The market conditions;
3. The investment horizon and investment type (for example, the market sentiment when measuring the fair value of a short-term financial investment might be better captured by some valuation techniques than by others);
4. some valuation techniques than by others);
5. The nature of an investment's business (for example, the volatile or cyclical nature of an investee's business might be better captured by some valuation techniques than others); and
6. The industry in which an entity operates.

The fair value measurement technique must reflect current market conditions. An entity might ensure that the valuation techniques reflect current market conditions by calibrating them at the measurement date. At initial recognition, if the transaction price represented fair value and an investor will use a valuation technique to measure fair value in

subsequent periods that uses unobservable inputs, the entity must calibrate the valuation technique so that it equals the transaction price (if the transaction contains a non-exchange component, recalibrate to the fair value of the equity instrument). The use of calibration when measuring the fair value of the unquoted equity instruments at the measurement date is a good exercise for an entity to ensure that the valuation technique reflects current market conditions and to determine whether an adjustment to the valuation technique is necessary (for example, there might be a characteristic of the instrument that is not captured by the valuation technique or a new fact that has arisen at the measurement date that was not present at initial recognition).

In some circumstances, an entity may have to apply more than one valuation technique when determining fair value.

Examples of various types of techniques for measurement of the fair value of unquoted equity instruments, are provided in Illustrative Examples 23–26.

E.2.5—Cost as a Proxy for Fair Value of Equity Instruments

Can the cost of the equity instrument be used by default for subsequent measurement?

No. Investments in equity instruments must be measured at fair value. However, as noted in paragraph AG140 cost may be an appropriate estimate of fair value because there is insufficient recent information available to measure fair value or because there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Section F Other

F.1 IPSAS 41 and IPSAS 2—Hedge Accounting: Cash Flow Statement

How should cash flows arising from hedging instruments be classified in the cash flow statement?

Cash flows arising from hedging instruments are classified as operating, investing or financing activities, on the basis of the classification of the cash flows arising from the hedged item. While the terminology in IPSAS 2 has not been updated to reflect IPSAS 41, the classification of cash flows arising from hedging instruments in the cash flow statement should be consistent with the classification of these instruments as hedging instruments under IPSAS 41.

Section G Concessionary Loans and Non-Exchange Equity Transactions

G.1 Sequencing of "Solely Payments of Principal and Interest" Evaluation for a Concessionary Loan

If an entity issues a concessionary loan (financial asset), when does it assess classification for subsequent measurement purposes?

An entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a transfer, a contribution from owners or a combination thereof, by applying the principles in IPSAS 28 and paragraphs AG152–AG153 of IPSAS 47, *Revenue*. If an entity has determined that the transaction, or part of the transaction, is a loan, it assesses whether the transaction consideration represents the fair value of the loan on initial recognition. An entity determines the fair value of the loan by using the principles in paragraphs AG144–AG155.

After initial recognition at fair value, an entity subsequently assesses the classification of concessionary loans in accordance with paragraphs 39–44 and measures concessionary loans in accordance with paragraphs 61–65.

G.2 Concessionary Loans and "Solely Payments of Principal and Interest" Evaluation

Can a concessionary loan satisfy the SPPI condition?

Yes. When the payments of the loan, based on its fair value determined at initial recognition, reflect solely payments of principal and interest.

However, if a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, a contingent repayment feature specific to the borrower), the entity must determine whether the

contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraphs 40(b) and 41(b). To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows. The entity may also need to assess the nature of any contingent event (i.e., the trigger) that would change the timing or amount of the contractual cash flows (see paragraphs AG72–AG75).

A common feature of a concessionary loan is an interest concession. A concessionary loan with a contractual interest rate of nil does not preclude the instrument from satisfying the SPPI condition.

G.3 Valuation of Non-Exchange Component

Can the non-exchange component of an equity transaction equal the transaction cost?

No. To the extent an entity receives an equity instrument, such as common shares, in exchange for consideration, the equity instrument will have some value on initial recognition and must be measured at fair value.

At initial recognition, the entity must evaluate the substance of the arrangement and assess whether a portion of the consideration provided is a non-exchange component such as a grant or subsidy.

G.4 Equity Instruments Arising from Non-Exchange Transactions

How might an equity instrument included in a non-exchange transaction be evidenced?

In assessing whether an equity instrument is included as part of a transaction that also includes a non-exchange component, an entity applies the definition of an equity instrument and the requirements in IPSAS 28.

Indicators that may evidence the existence of an equity instrument may include:

(a) A formal designation of the transfer (or a class of such transfers) of equity instruments forming part of the investment's contributed net assets/equity, either before the investment occurs or at the time of the investment;

(b) A formal agreement, in relation to the equity instrument, establishing or increasing an existing financial interest in the net assets/equity of the investment that can be sold, transferred, or redeemed; or

(c) The receipt of equity instruments that can be sold, transferred, or redeemed.

G.5 Factors to Consider in Evaluating Concessionary and Originated Credit-Impaired Loans

What factors should be considered when evaluating whether a loan is a concessionary loan or an originated credit-impaired loan?

Both concessionary loans and originated credit-impaired loans have lower estimated future cash flows than similar loans that do not have a concessionary or credit-impaired component.

The issuer of a debt instrument evaluates the substance of the financial instrument to determine whether the instrument is classified as a concessionary loan or an originated credit-impaired loan.

Features that indicate that the financial instrument is a concessionary loan include:

- The lender has an objective to incorporate a non-exchange component in the loan transaction. As such, the lender intends to give up a portion of the cash flows that would otherwise be available had the transaction been negotiated at market terms;
- The financial instrument is extended below-market terms, by way of an interest and/or a principal concession; and

- The characteristics of the loan agreement, i.e., the contractual terms that are negotiated off market, result in a decrease in the estimated future cash flows of the instrument when compared to a similar loan that does not have a concessionary or credit-impaired component.

Originated credit-impaired financial assets (see paragraphs 85–86) are generally extended at market terms at origination but have lower estimated cash flows in comparison to similar instruments, because the borrowing entity is not expected to be able to satisfy the contractual terms of the arrangement. The lender expects a portion of the contractual cash flows to be uncollectible, as opposed to intending to give up a portion of the cash flows which would otherwise be available at market terms. As such, originated credit-impaired loans present an opportunity for the lender to collect cash flows in excess of the estimated future cash flows, while with concessionary loans, the estimated future cash flows approximate the contractual cash flows, meaning no additional cash flows are available.

G.6 Concessionary Loans that are Originated Credit-Impaired

Can a concessionary loan be originated credit-impaired?

Yes. In some circumstances a concessionary loan may be granted that is also originated credit-impaired. A concessionary loan may be credit-impaired at origination because one or more events have had a detrimental impact on the estimated future cash flows of the financial asset.

For example, in order to support the operation of the national airline's domestic routes, the department of finance advances loans to the airline on an annual basis. The annual interest payments are based on a contract rate of 6 percent. Assuming the market rate at the time the loan is advanced is 10 percent, this represents a concession.

Historically, even with the concessionary terms, the department of finance has collected only 85 percent of the loan's contractual cash flows. The department of finance expects this trend to continue with the current loan issue.

This example represents a concessionary originated credit-impaired loan as the loan has concessionary terms, but even with those terms, significant credit losses are expected to occur.

In evaluating whether the expected credit losses on the concessionary loan support the loan being originated credit-impaired or just represent normal credit losses, the entity considers whether one or more events has occurred that have had a detrimental impact on the estimated future cash flows of the loan.

Section H Effective Interest Method

H.1 Requirement to Use the Effective Interest Method

When transaction costs and any premium or discount on issuance are insignificant, measuring the amortized cost of an instrument using the effective interest rate produces similar results as using the straight-line method.

In circumstances where measuring the gross amount of an instrument using the effective interest method yields immaterial differences as compared to applying the straight-line method, is the effective interest method required to be used?

Measuring the amortized cost of an instrument requires the use of the effective interest method. However, in practice there may be scenarios where applying the straight-line method yields materially the same result.

Paragraph 10 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, indicates "IPSAS set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and faithfully representative information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial…"

When an alternative technique – in this case the straight-line method – yields materially the same result as measuring amortized cost using the effective interest method, management need not apply the effective interest method as required by IPSAS 41, *Financial Instruments*.

The following example illustrates why differences arise when measuring the gross amount of a debt instrument using the effective interest method compared to the straight-line method. National Government A issues a bond with a face value of CU100,000. The bond yield of 10 percent is paid annually until maturity in 5 years. The bond was issued at a discount of 3 percent and National Government A had to pay CU2,000 in transaction costs.

Under both measurement methodologies, National Government A received CU95,000 on issuance of the instrument (CU95,000 = CU100,000 – CU2,000 – CU100,000 x 3 percent).

Straight Line Method

Measuring the gross amount of the instrument using the straight line method requires amortizing the discount and transaction costs evenly until maturity.

Year	**(a)**	**(b = 100,000 × 10 percent)**	**(c)**	**(d)**	**(e = a + b + c – d)**
	Gross carrying amount at the beginning of the year	**Interest expense**	**Amortization of transaction costs and discount**	**Cash flows**	**Gross carrying amount at the end of the year**
1	95,000	10,000	1,000	10,000	96,000
2	96,000	10,000	1,000	10,000	97,000
3	97,000	10,000	1,000	10,000	98,000
4	98,000	10,000	1,000	10,000	99,000
5	99,000	10,000	1,000	110,000	–

Effective Interest Method

Measuring the gross amount of the instrument using the effective interest method requires calculating the rate that exactly discounts the estimate future cash payments through the expected life of the instrument to the gross carrying amount of the instrument. Discounting the estimated cash flows of the bond yields an effective interest rate of 11.37 percent.

Year	**(a)**	**(b = a × 11.37 percent)**	**(c)**	**(d = a + b – c)**
	Gross carrying amount at the beginning of the year	**Interest expense**	**Cash flows**	**Gross carrying amount at the end of the year**
1	95,000	10,797	10,000	95,797
2	95,797	10,888	10,000	96,685
3	96,685	10,989	10,000	97,673
4	97,673	11,101	10,000	98,774

Year	(a)	(b = a × 11.37 percent)	(c)	(d = a + b – c)
	Gross carrying amount at the beginning of the year	Interest expense	Cash flows	Gross carrying amount at the end of the year
5	98,774	11,226	110,000	–

When evaluating whether measuring the gross amount of the bond using the straight line method yields an immaterial difference compared to applying the effective interest method, the gross amount is compared at each measurement date as detailed in the table below.

Year	Straight Line Method	Effective Interest Method	
	Gross carrying amount at the beginning of the year	Gross carrying amount at the beginning of the year	Difference
1	95,000	95,000	-
2	96,000	95,797	203
3	97,000	96,685	315
4	98,000	97,673	327
5	99,000	98,774	226

The measurement difference between the two methods is a result of the transaction costs and the discount on issuance of the bond. As the costs approach zero, the difference between measuring the bond using the straight line method or the effective interest method will become smaller. As the costs increase, the difference will grow in size.

Furthermore, contemplating the effect on annual interest expense may yield further considerations when assessing whether applying the straight line method or effective interest method is material.

Section I Sovereign Debt Restructurings

I.1 Sovereign Debt Restructurings

Are sovereign debt restructurings covered by IPSAS 41?

Yes. Sovereign debt restructurings involve the modification, and/or derecognition, of financial liabilities, which are addressed in IPSAS 41. The requirements and guidance relevant to sovereign debt restructurings include:

(a) Paragraphs 57 and 64 establish the requirements for the initial, and subsequent, measurement of financial liabilities;

(b) Paragraphs 35–38 establish the derecognition requirements for financial liabilities;

(c) Paragraph AG46 provides application guidance for assessing the extent of modifications to financial liabilities; and

(d) Paragraphs AG118–AG127 provide application guidance for loans granted at concessionary terms.

COMPARISON WITH IFRS 9

IPSAS 41, *Financial Instruments* is drawn primarily from IFRS 9, *Financial Instruments* (including amendments up to December 31, 2015). The main differences between IPSAS 41 and IFRS 9 are as follows:

- IPSAS 41 contains additional application guidance to deal with concessionary loans, financial guarantee contracts entered into at nil or nominal consideration, equity instruments arising from non-exchange transactions and fair value measurement.
- In certain instances, IPSAS 41 uses different terminology from IFRS 9. The most significant examples are the use of the terms “statement of financial performance” and “net assets/equity.” The equivalent terms in IFRS 9 are “statement of comprehensive income or separate income statement (if presented)” and “equity.”
- IPSAS 41 does not distinguish between “revenue” and “income.” IFRS 9 distinguishes between “revenue” and “income,” with “income” having a broader meaning than the term “revenue.”
- Principles from IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* and IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* have been included as authoritative appendices to IPSAS 41. The IASB issues IFRICs as separate documents.
- IPSAS 41 includes additional fair value measurement guidance retained from IPSAS 29, *Financial Instruments: Recognition and Measurement*.

IPSAS 42, *SOCIAL BENEFITS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 42, *Social Benefits* was issued in January 2019.

Since then, IPSAS 42 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- IPSAS 48, *Transfer Expenses* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- *COVID-19: Deferral of Effective Dates* (*i*ssued November 2020)
- *Collective and Individual Services* (Amendments to IPSAS 19) (issued January 2020)

Table of Amended Paragraphs in IPSAS 42

Paragraph Affected	How Affected	Affected By
12	Amended	IPSAS 46 May 2023
4A	New	*Collective and Individual Services* January 2020
35	Amended	*COVID-19: Deferral of Effective Dates* November 2020
35A	Amended	*COVID-19: Deferral of Effective Dates* November 2020
35B	New	IPSAS 46 May 2023
36	Amended	IPSAS 33 November 2025
154	Amended	IPSAS 33 November 2025
AG17	Amended	IPSAS 46 May 2023
IG2	Amended	IPSAS 48 May 2023
IG5	Amended	*Definition of Material* October 2025
IE37	Amended	IPSAS 46 May 2023
IE38	Amended	IPSAS 46 May 2023
IE39	Deleted	IPSAS 46 May 2023
IE40	Amended	IPSAS 46 May 2023
IE41	Amended	IPSAS 46 May 2023
IE46	Amended	IPSAS 46 May 2023
IE47	Amended	IPSAS 46 May 2023
IE48	Deleted	IPSAS 46 May 2023

Paragraph Affected	How Affected	Affected By
IE49	Amended	IPSAS 46 May 2023
IE50	Amended	IPSAS 46 May 2023
IE51	Amended	IPSAS 46 May 2023

IPSAS 42, *SOCIAL BENEFITS*

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International Public Sector Accounting Standard 42, *Social Benefits*, is set out in paragraphs 1–36. All the paragraphs have equal authority. IPSAS 42 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits as defined in this Standard. The information provided should help users of the financial statements and general purpose financial reports assess:

   (a) The nature of such social benefits provided by the entity;

   (b) The key features of the operation of those social benefit schemes; and

   (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

2. To accomplish that, this IPSAS establishes principles and requirements for:

   (a) Recognizing expenses and liabilities for social benefits;

   (b) Measuring expenses and liabilities for social benefits;

   (c) Presenting information about social benefits in the financial statements; and

   (d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for social benefits.**

4. **This Standard applies to a transaction that meets the definition of a social benefit. This Standard does not apply to cash transfers that are accounted for in accordance with other Standards:**

   (a) **Financial instruments that are within the scope of IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement* prior to an entity adopting IPSAS 41);**

   (b) **Employee benefits that are within the scope of IPSAS 39, *Employee Benefits;* and**

   (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts.**

   Paragraphs AG1–AG3 provide additional guidance on the scope of this Standard.

4A. Collective services and individual services (as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*) are not social benefits. Guidance on determining whether a provision arises for these transactions is provided in IPSAS 19.

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

   Social benefits are cash transfers provided to:

   (a) **Specific individuals and/or households who meet eligibility criteria;**

   (b) **Mitigate the effect of social risks; and**

   (c) **Address the needs of society as a whole.**

   Paragraphs AG4–AG8 provide additional guidance on this definition.

   Social risks are events or circumstances that:

(a) **Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and**

(b) **May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.**

Paragraphs AG9–AG10 provide additional guidance on what is encompassed by social risks.

General Approach

Recognition of a Liability for a Social Benefit Scheme

6. **An entity shall recognize a liability for a social benefit scheme when:**

(a) **The entity has a present obligation for an outflow of resources that results from a past event; and**

(b) **The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports as set out in *the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.**

Outflow of Resources

7. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.

8. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Past Event

9. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

Paragraphs AG11–AG14 provide additional guidance on the recognition of a liability.

Recognition of an Expense for a Social Benefit Scheme

10. **An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.**

11. An entity shall not recognize an expense for a social benefit scheme where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied. Rather, an entity shall recognize a payment in advance as an asset in the statement of financial position, unless the amount becomes irrecoverable, in which case it shall recognize an expense.

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

12. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability. IPSAS 46, *Measurement*, provides guidance on measuring liabilities at cost of fulfillment.**

13. An entity's best estimate of the costs (i.e., the social benefit payments) that the entity will make takes into account the possible effect of subsequent events on those social benefit payments.

14. When the liability in respect of a social benefit scheme is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognized (i.e., the next social benefit payment will not be made for more than twelve months), the liability shall be discounted using the discount rate specified in paragraph 19.

15. Paragraphs AG15–AG18 provide additional guidance on measuring the liability.

Subsequent Measurement

16. **The liability for a social benefit scheme shall be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit in the period in which the liability is settled.**

17. **Where a liability is discounted in accordance with paragraph 14, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.**

18. **Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.**

Discount Rate

19. **The rate used to discount a liability in respect of a social benefit scheme shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the social benefit liability.**

20. Paragraph AG18 provides additional guidance on the discount rate to be used.

Measurement of an Expense for a Social Benefit Scheme

21. **An entity shall initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 12. Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it shall measure the payment in advance or expense recognized in accordance with paragraph 11 at the amount of the cash transferred.**

Disclosure

22. **The objective of the disclosures under the general approach, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 23–25 specify requirements on how to meet this objective.**

23. **An entity shall disclose information that:**

    (a) **Explains the characteristics of its social benefit schemes; and**

    (b) **Explains the demographic, economic and other external factors that may affect its social benefit schemes.**

24. To meet the requirements of paragraph 23, an entity shall disclose:

(a) Information about the characteristics of its social benefit schemes, including:

(i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).

(ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and a statement about how additional information about the scheme can be obtained.

(iii) A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:

a. A cross reference to the location of information about those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or

b. A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements and how that information can be obtained.

(iv) A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate where the same demographic, economic and other external factors impact a number of social benefit schemes in a similar manner.

(b) The total expenditure on social benefits recognized in the statement of financial performance, analyzed by social benefit scheme.

(c) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:

(i) Changes to the level of social benefits provided; and

(ii) Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity shall have regard to the requirements of paragraphs 45–47 of IPSAS 1, *Presentation of Financial Statements*, which provide guidance on materiality and aggregation.

25. If a social benefit scheme satisfies the criteria in paragraph 28 to permit the use of the insurance approach, a statement to that effect.

Insurance Approach

Recognition and Measurement

26. **Where a social benefit scheme satisfies the criteria in paragraph 28, an entity is permitted, but not required, to recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts[1].**

[1] In the insurance approach section of this Standard, the term "the relevant international or national accounting standard dealing with insurance contracts" refers to IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17.

Paragraph AG19 provides additional guidance on the accounting standards dealing with insurance contracts that may be applied, by analogy, in accounting for social benefits.

27. Where an entity elects not to apply by analogy the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall recognize and measure the liabilities and expenses associated with that social benefit scheme, and include disclosures in the financial statements, in accordance with paragraphs 6–25 of this Standard.

28. An entity may recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:

    (a) The social benefit scheme is intended to be fully funded from contributions; and

    (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

    Paragraphs AG20–AG25 provide additional guidance on determining whether these criteria have been satisfied.

Disclosure

29. **The objective of the disclosures under the insurance approach, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 30 and 31 specify requirements on how to meet this objective.**

30. **Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall disclose:**

    (a) **The basis for determining that the insurance approach is appropriate;**

    (b) **The information required by the relevant international or national accounting standard dealing with insurance contracts; and**

    (c) **Any additional information required by paragraph 31 of this Standard.**

31. To meet the requirements of paragraph 30(c) of this Standard, an entity shall disclose:

    (a) Information about the characteristics of its social benefit schemes, including:

        (i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits); and

        (ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the scheme, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained; and

    (b) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:

        (i) Changes to the level of social benefits provided; and

        (ii) Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity shall have regard to the requirements of paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation.

Reporting on the Long-Term Sustainability of an Entity's Finances

32. Entities with social benefits are encouraged, but not required, to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, provides guidance on the preparation of such reports.

Transitional Provisions

General Approach

33. **In accounting for a social benefit scheme that is recognized and measured, and about which disclosures are made, in accordance with the general approach (see paragraphs 6–25), an entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.***

Insurance Approach

34. **An entity shall apply the transitional provisions in the relevant international or national accounting standard dealing with insurance contracts in accounting for a social benefit scheme that is recognized and measured, and about which disclosures are made, in accordance with the insurance approach (see paragraphs 26–31).**

Effective Date

35. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2023, it shall disclose that fact.**

35A. **Paragraph 4A was added by *Collective and Individual Services* (Amendments to IPSAS 19). An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged.**

35B. **Paragraphs 12 and AG17 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

36. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 42.

Scope (see paragraphs 3–4)

AG1. This Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 5 of this Standard. This Standard does not address transactions that are addressed in other IPSAS, such as employee pensions (which are accounted for in accordance with IPSAS 39, *Employee Benefits)* and concessionary loans such as student loans (which are accounted for in accordance with IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement* prior to an entity adopting IPSAS 41)).

AG2. Similarly, this Standard does not apply to insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph 5 of this Standard. Insurance contracts are accounted for in accordance with the relevant international or national accounting standard dealing with insurance contracts.

AG3. This Standard does not apply to collective and individual services. The definition of social benefits only includes cash transfers, not the provision of services. This Standard does not apply to cash transfers to individuals and households that do not address social risks, for example emergency relief.

Definitions (see paragraph 5)

Guidance on the Definition of Social Benefits

AG4. Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/or households. Services provided by a public sector entity are not social benefits. In some jurisdictions, a public sector entity may provide vouchers that allow individuals and/or households to access services, or may reimburse individuals and/or households for costs incurred in accessing services. The economic substance of these transactions is that the public sector entity is paying for the provision of the services; such transactions do not, therefore, meet the definition of a social benefit. Where a public sector entity provides vouchers or reimbursements, the individual and/or household has no discretion over the use of the benefit. By contrast, social benefits provide cash transfers that may be used indistinguishably from income coming from other sources.

AG5. Some jurisdictions may provide cash transfers in the form of cash equivalents that have limited restrictions on the use of the cash transfer. For example, a government may provide a pre-paid debit card that can be used to purchase any item except alcohol and tobacco products. Such limited restrictions do not contravene the principle that social benefits provide cash transfers that may be used indistinguishably from income coming from other sources. Pre-paid debit cards with limited restrictions are cash transfers, not the provision of services by a government.

AG6. Social benefits are only provided when eligibility criteria to receive a social benefit payment when it is next paid are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where a public sector entity pays a universal basic income to all adult residents.

AG7. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example

is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.

AG8. Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.

Guidance on the Definition of Social Risks

AG9. Social risks relate to the characteristics of individuals and/or households–for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

AG10. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

General Approach (see paragraphs 6–21)

Recognition of a Liability for a Social Benefit Scheme

AG11. In accordance with paragraph 9 of this Standard, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. Other ongoing eligibility criteria may be relevant for some social benefit schemes. For example, many unemployment benefits are only payable while the individual remains resident in the jurisdiction; residence is an ongoing eligibility criterion. For a liability to be recognized, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.

AG12. Where a beneficiary has not previously satisfied the eligibility criteria for the next payment, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria for the next payment are first satisfied or when all the eligibility criteria are satisfied again. Examples may include:

(a) Reaching retirement age (in the case of a retirement pension);

(b) The death of a partner (in the case of a survivor benefit);

(c) Becoming unemployed (in the case of an unemployment benefit without a waiting period); and

(d) Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

An entity will recognize a liability where beneficiaries satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date. Where a beneficiary satisfies the eligibility criteria for a social benefit

payment prior to the point at which the next social benefit payment will be made, but after the reporting date, no liability is recognized, as there is no present obligation as at the reporting date.

AG13. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for social benefits is recognized each time the criteria are satisfied.

AG14. Whether being alive is a separate eligibility criterion will depend on the characteristics of each individual social benefit scheme. For some schemes, separate consideration of being alive is not required as it is indirectly addressed by another eligibility criterion. For example:

(a) An unemployment benefit may only be payable to those who have become unemployed and are available for work (which implicitly includes being alive).

(b) Being alive may not be an eligibility criterion for the recipient of the social benefit. A child benefit may be paid to the parents or guardian of the child; the payment of the benefit may be dependent on the child being alive, and not on the status of the parent or guardian.

(c) Benefits may be transferred to a survivor following the death of the beneficiary.

An entity needs to consider how being alive affects the recognition of each particular social benefit scheme, taking all relevant factors into consideration.

Measurement of a Liability for a Social Benefit Scheme

AG15. In accordance with paragraph 12 of this Standard, an entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity expects to make in fulfilling the present obligation represented by the liability. Satisfaction of the eligibility criteria for each social benefit payment is a separate past event, and the liability for each payment is measured separately. The maximum amount to be recognized as a liability is the costs the entity expects to incur in making the next social benefit payment. This is because social benefit payments beyond this point are future events for which there is no present obligation.

AG16. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria for the next payment are required (implicitly or explicitly) to be satisfied. Examples include:

(a) The death of the beneficiary (where no survivor benefits are payable);

(b) Commencing employment (in the case of an unemployment benefit); and

(c) Exceeding the maximum period for which a social benefit is provided (where an unemployment benefit is provided for a limited period).

The extent to which such events affect the measurement of the liability will depend on the terms of the scheme. For example, an unemployment benefit is payable on the 15th of each month, and the reporting date is December 31. If the payment to be made on January 15 relates to unemployment up to December 15, then at the time the eligibility criteria for the next social benefit payment are met, the amount due will be known and is recognized at the reporting date. No adjustment for beneficiaries subsequently ceasing to be eligible is required.

However, if the payment on January 15 relates to unemployment between December 16 and January 15, measurement of the liability to be recognized at the reporting date is based on an estimate of the extent to which eligibility criteria for a payment have been satisfied.

AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. IPSAS 14, *Events After the Reporting Date*, and Appendix C of IPSAS 46, *Measurement*, provides guidance on using this information.

AG18. Because a liability for a social benefit scheme will usually be a short-term liability, the time value of money may not be material. Nevertheless, this Standard requires an entity to discount the liability in those cases where the liability is not expected to be settled within twelve months of the reporting date and the impact of discounting is material. IPSAS 39 provides additional guidance on the discount rate to be used.

Insurance Approach (see paragraphs 26–28)

AG19. In the insurance approach section of this Standard, the term "the relevant international or national accounting standard dealing with insurance contracts" refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17. IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes that satisfy the criteria to use the insurance approach, will provide information that meets users' needs and satisfies the qualitative characteristics. This may not be the case for other accounting standards dealing with insurance contracts. For example, the IASB has described IFRS 4, *Insurance Contracts,* as an "interim Standard that permits a wide range of practices and includes a "temporary exemption", which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable."[2] IFRS 4, and national standards that are consistent with the principles of IFRS 4, may not provide information that meets users' needs and satisfies the qualitative characteristics. Consequently, an entity may not recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of standards that have not adopted substantially the same principles as IFRS 17.

Guidance on Determining Whether a Social Benefit Scheme is Intended to be Fully Funded from Contributions

AG20. A social benefit scheme is intended to be fully funded from contributions when:

(a) The legislation or other arrangement governing the social benefit scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme, together with investment returns arising from the contributions or levies; and

(b) One or both of the following indicators (individually or in combination) is satisfied:

(i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions or levies will be sufficient to fully fund the social benefit scheme; and/or

(ii) Social benefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of social benefits provided will not exceed the level of funding available from contributions or levies.

In subparagraphs (i) and (ii) above, reviews are undertaken on a regular basis when they are performed at a frequency appropriate for the specific scheme. While annual reviews are common, less frequent—or more frequent—reviews will be appropriate for some schemes.

AG21. In some circumstances, a public sector entity may be required to make contributions to a social benefit scheme on behalf of those individuals and/or households who could not afford to do so. Such contributions may be made by the entity administering the scheme or some other entity. For example, a public sector entity may be required to make contributions to a retirement pension scheme for those individuals who are unemployed. Where the

[2] Exposure Draft ED/2013/7 *Insurance Contracts*

contributions relate to specified individuals and/or households (which in some cases will require the contributions to be credited against the individuals' contribution accounts), the contributions made by the public sector entity are to be considered as contributions for the purposes of determining whether a social benefit scheme is intended to be fully funded from contributions in accordance with paragraph 28(a). Where a public sector entity makes contributions to fund the deficit on a social benefit scheme, the contributions are not related to specified individuals and/or households, and are not considered as contributions for the purposes of determining whether a social benefit scheme is intended to be fully funded from contributions in accordance with paragraph 28(a).

AG22. In assessing whether a social benefit scheme is intended to be fully funded from contributions, an entity considers substance over form. For example, where a social benefit scheme is in deficit for a period but the scheme has an ability to adjust the future contribution rates and/or benefits payable such that the deficit is addressed, the scheme may still satisfy the criteria to be accounted for under the insurance approach.

AG23. The reference in paragraph AG20(a) to "those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme" is intended to cover those social benefit schemes such as an accident insurance scheme that:

(a) Are funded by levies on, for example, motorists or employers in particular industries; and

(b) Provide coverage against social risks to the wider population.

Guidance on Determining Whether an Entity is Managing a Scheme in the Same Way as an Insurer

AG24. An entity is managing a social benefit scheme in the same way as an insurer would manage an insurance portfolio when the social benefit scheme has, with the exception of its legislative rather than contractual origins, the characteristics of an insurance contract. The social benefit scheme should confer the rights and obligations on parties similar to that of an insurance contract.

AG25. In determining whether it is managing a social benefit scheme in the same way as an insurer would manage an insurance portfolio, an entity considers the following indicators:

(a) Does the entity consider itself bound by the scheme in a similar manner to an insurer being bound by an insurance contract? For example, there may be evidence that the entity considers that it can amend the terms of the scheme for existing participants in a manner that an insurer could not (such as where the entity can make retrospective changes to the scheme). In such cases, the entity will not be bound in a similar manner to an insurer, and the social benefit scheme will not have the characteristics of an insurance contract. An entity will be bound by the scheme in a similar manner to an insurer where its ability to amend the scheme for existing participants is limited to:

(i) Circumstances prescribed by the legislation that establishes the scheme (equivalent to a contractual term permitting changes in specific circumstances); or

(ii) When a government is setting new contribution or levy rates (where a trade-off between the contributions and prospective benefits is part of the process of determining an appropriate rate).

(b) Are assets relating to the social benefit scheme held in a separate fund, or otherwise earmarked, and restricted to being used to provide social benefits to participants? If an entity does not separately identify amounts relating to social benefits, this will provide evidence that the entity considers the contributions as a form of taxation. The social benefit scheme will not have the characteristics of an insurance contract. There will also be practical difficulties with applying the measurement requirements of the relevant international or national accounting standard dealing with insurance contracts if the assets associated with a social benefit scheme are not separately identified.

(c) Does the legislation that establishes the social benefit give enforceable rights to participants in the event that the social risk occurs? Insurance contracts give such rights to policyholders. If the social benefit

scheme does not also include such rights, then any social benefits provided by the entity will have a discretionary nature, meaning that the social benefit scheme will not have the characteristics of an insurance contract. For rights to be enforceable, a participant would need to have the right to challenge–in a court of law, via an arbitration or dispute resolution process or similar mechanism–decisions by the entity. The decisions that may be challenged include, but are not limited to, those regarding whether an event is covered by a scheme, the level of social benefits payable by a scheme, and the duration of any social benefits payable by a scheme.

(d) An entity assesses the financial performance and financial position of a social benefit scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme. The assessment is expected to involve the use of actuarial reviews, mathematical modelling, or similar techniques to provide information for internal decision-making on the different possible outcomes that might occur.

(e) Is there a separate entity established by the government, which is expected to act like an insurer in relation to a social benefit scheme? The existence of such an entity provides evidence that the entity is managing a scheme in the same way as an insurer would manage an insurance portfolio. However, it is not a requirement for applying the insurance approach that a separate entity has been established. Relevant international and national accounting standards dealing with insurance contracts apply to insurance contracts, not just to insurance companies.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 42.

Objective (paragraphs 1–2)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with social benefits, public sector entities were required to develop their own accounting policies for recognizing, measuring and presenting social benefits. As a result, there may not have been consistent or appropriate reporting of transactions and obligations related to social benefits in general purpose financial statements (financial statements). Consequently, users may not have been able to obtain the information needed to identify the social benefits provided by an entity and evaluate their financial effect. The IPSASB believes that IPSAS 42 will promote consistency and comparability in how social benefits are reported by public sector entities.

Scope and Definitions (paragraphs 3–5)

History

BC2. In developing IPSAS 42, the IPSASB noted that existing IPSAS did not define social benefits. Instead, a broad description was given in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets.*

BC3. IPSAS 19 described social benefits as "goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

(a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and

(b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income."

BC4. The IPSASB also had regard to its previous work in this area. The 2004 Invitation to Comment (ITC), *Accounting for Social Policies of Government*, sought views on how to account for a wide range of social benefits. The ITC noted that "Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities)." These are often referred to as "collective services" or "collective goods and services."

BC5. Responses to the ITC supported the development of an IPSAS on social benefits. However, the IPSASB failed to reach a consensus on when a present obligation arises especially for contributory cash transfer schemes. Consequently, in 2008 the IPSASB issued Exposure Draft (ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*. At this time the IPSASB also issued a Project Brief, Long-Term Fiscal Sustainability.

BC6. Respondents did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Consequently, the IPSASB agreed not to proceed with ED 34.

BC7. The CP, *Social Benefits: Issues in Recognition and Measurement*, proposed a narrower definition of social benefits than had been included in the 2004 ITC. The CP included the following definition of social benefits:

"The IPSASB defines social benefits as;

(a) Cash transfers; and

(b) Collective and individual goods and services

that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks."

BC8. This definition introduced the idea of social benefits being related to social risks for the first time in the IPSASB's literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The CP did not, however, define social risks.

BC9. Despite the narrower scope and the link with social risks, the IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP. The IPSASB recognized the linkages between its work in developing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework*) and accounting for social benefits. The elements and recognition phase of the *Conceptual Framework* would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the *Conceptual Framework.*

BC10. In the interim, the IPSASB initiated a project on the long-term sustainability of public finances in 2008, based on the project brief. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* was published in 2013.

BC11. RPG 1 provides guidance on preparing general purpose financial reports that can meet users' needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.

BC12. In the context of social benefits, general purpose financial reports prepared in accordance with RPG 1 will provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who are not currently contributing to a scheme that would entitle them to future social benefits. RPG 1 does not address the question of whether such obligations meet the definition of a present obligation, and so should be recognized in the financial statements.

BC13. General purpose financial reports prepared in accordance with RPG 1 will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.

BC14. The IPSASB restarted its work on social benefits in 2014. The IPSASB noted that the broad scope of social benefits included in previous projects had been a factor in the IPSASB failing to reach consensus. Consequently, the IPSASB decided to adopt a narrower definition of social benefits. At this time, the IPSASB had agreed to commence work on a non-exchange expenses project; the IPSASB considered that adopting a narrower definition of social benefits would best meet the project management needs of both projects.

Role of Government Finance Statistics (GFS)

BC15. The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate. The IPSASB therefore considered the approach to social benefits taken in GFS.

BC16. In developing the CP, *Recognition and Measurement of Social Benefits (*issued in 2015) the IPSASB considered that social benefits, other transfers in kind and collective services would be expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB considered that different factors would arise in the recognition and measurement of transactions that address specific social risks (i.e., social benefits) and those transactions that do not. For example, the recognition and measurement of an obligation in respect of social benefits may be related to individuals satisfying eligibility criteria.

BC17. Having reviewed the approach to social benefits taken in GFS, the IPSASB noted that the economic consequences described in GFS were likely to be similar to those in a future IPSAS. The IPSASB decided to align, as far as possible, its definition of social benefit with those in GFS. This was the approach taken in the CP, *Recognition and Measurement of Social Benefits.*

BC18. The alignment with GFS was intended to provide clearer definitions that demarcate transactions and events which are, in substance dissimilar. It also maximized consistency between the two frameworks, in line with the IPSASB policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSAS.*

Responses to Consultation Paper, Recognition and Measurement of Social Benefits

BC19. A majority of respondents supported the scope of the project as set out in the 2015 CP, and the IPSASB's intention to align the scope of the project, and the definitions of social benefits and social risks, with GFS. These respondents considered that alignment with GFS would assist with interpreting an IPSAS and help ensure consistency in its application.

BC20. However, a significant minority raised concerns. The main concerns were:

(a) Definition of social risk. A number of respondents considered that the definition of social risk was difficult to apply in practice, and that it was therefore difficult to differentiate between social benefits and certain other non-exchange expenses of government.

(b) The boundary between social benefits and non-exchange expenses. Some respondents considered that social benefits in kind and other transfers in kind give rise to the same issues. These respondents considered that the scope of the 2015 CP creates an artificial boundary between social benefits and other non-exchange expenses.

BC21. The IPSASB considered these concerns in developing ED 63, *Social Benefits,* as follows:

(a) The definition of social risks was reframed to fit an accounting framework as opposed to an economic/statistical framework. Although the wording of the definition was amended in ED 63, the IPSASB's intention in so doing was to clarify the meaning of the definitions for preparers, rather than to modify the risks that are considered to be social risks. The definition of social benefits was also amended to improve the clarity of the definition.

(b) ED 63 distinguished between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks are often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks are often reactive, and may be put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange expenses project than this Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.

(c) ED 63 distinguished between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction was intended to provide a more principles based, less artificial boundary between social benefits and other non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to other non-exchange expenses. In developing this boundary, the IPSASB acknowledged that social benefits and other non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.

BC22. The effect of these decisions was to align the scope of ED 63, and its definitions of social benefits and social risks, with those in GFS, with the exception of universally accessible services. Universally accessible services such as a universal healthcare service are considered to be social benefits under GFS, but were outside the scope of ED 63. The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and other non-exchange expenses.

Responses to ED 63, Social Benefits

BC23. ED 63 specifically excluded collective services and universally accessible services from the scope of social benefits, as proposed in the 2015 CP. Most respondents to ED 63 supported the proposed scope. In doing so, respondents who supported the proposed scope commented that it was important that the boundary between social benefits and universally accessible services was clearly defined. They also commented that accounting treatments for social benefits and universally accessible services should have the same conceptual basis, with any differences in treatment being related to the different nature of the transactions.

BC24. The minority of respondents who did not support the proposed scope and definitions in ED 63 had similar concerns. These respondents considered that the scope and definitions needed to be further refined to avoid confusion and possible boundary issues or divergent accounting treatments. In particular, they considered that excluding universally accessible services from the scope of the proposed Standard could be difficult to apply, as the boundary between social benefits and universally accessible services was unclear.

BC25. As a result of these concerns, the IPSASB decided to clarify the scope and definitions. The IPSASB noted that respondents had different understandings of the scope and definitions in ED 63. Some respondents appeared to consider that social benefits were limited to cash transfers, whereas other respondents considered that social benefits included the provision of some services.

BC26. The IPSASB concluded that ED 63 was insufficiently clear about the definition of social benefits (and whether social benefits were limited to cash transfers), and therefore about the scope of the proposed Standard. The IPSASB also noted that in the Illustrative Examples provided in ED 63, all the transactions that satisfied the definition of a social benefit were cash transfers, whereas a number of the transactions that did not satisfy the definition of a social benefit involved the provision of services.

BC27. The IPSASB noted that defining social benefits as cash transfers would remove much of the confusion regarding the boundary between social benefits and universally accessible services.

BC28. The IPSASB also concluded that, when considering these transactions, there were conceptual differences between cash transfers and the provision of services. The provision of services would involve exchange transactions (for example, the expenses incurred in employing staff to provide these services or the expenses incurred in procuring goods and services from other entities). Cash transfers do not involve any additional transactions.

BC29. For these reasons, the IPSASB concluded that the economic substance of cash transfers made to individuals and households was different to the economic substance of services provided to individuals and households. The IPSASB therefore agreed that the scope of this social benefits Standard should be limited to cash transfers.

BC30. Following this decision, the IPSASB considered the nature of cash transfers. The IPSASB agreed that the form of the cash transfer was not important, and could include cash equivalents such as pre-paid debit cards. In this context, the IPSASB also agreed that cash transfers in the form of cash equivalents should impose no or limited restrictions on the use of the cash. The IPSASB noted that some jurisdictions using pre-paid debit cards imposed limited restrictions on the card, for example preventing its use to purchase alcohol or tobacco products. The IPSASB agreed that this type of limited restriction was not equivalent to a government directing how the cash

should be used. Consequently, the IPSASB agreed that the provision of a pre-paid debit card with limited restrictions on its use was a cash transfer for the purposes of the social benefits definition.

BC31. Some respondents to ED 63 did not see the rationale for distinguishing between social risks and other risks. These respondents proposed removing the reference to social risks in the definition of social benefits, and extending the scope of this Standard to include other benefits such as emergency relief.

BC32. The IPSASB noted that respondents to both the CP, Recognition and Measurement of Social Benefits and ED 63 had generally supported the reference to social risks, which maintained consistency with GFS. The IPSASB also remained of the view that governments' responses to social risks are often different to their response to other risks (see paragraph BC21(b) above).

BC33. For these reasons, the IPSASB decided to retain the reference to social risks in the definition of social benefits.

Approaches to Accounting for Social Benefits

BC34. The IPSASB consulted on three approaches to accounting for social benefits in the CP, *Recognition and Measurement of Social Benefits*. These were the obligating event approach (now referred to as the general approach), the social contract approach and the insurance approach.

BC35. The social contract approach viewed obligations to provide social benefits by governments as quasi-contractual in nature, and adopted executory contract accounting.

BC36. In developing the CP, the IPSASB came to a preliminary view that the social contract approach was not consistent with the *Conceptual Framework*. Respondents to the CP supported this preliminary view. Respondents considered that the social contract approach would result in items that met the definition of a liability not being recognized. Consequently, respondents considered that the social contract approach would not provide information that is useful for accountability and decision-making purposes.

BC37. The IPSASB noted the support for its preliminary view, and agreed not to proceed with the social contract approach.

BC38. In developing the CP, the IPSASB came to a preliminary view that a combination of the general approach and (for some or all contributory schemes) the insurance approach might be required to reflect the different economic circumstances arising in respect of social benefits.

BC39. Respondents to the CP supported this preliminary view. The IPSASB therefore agreed to develop both the general approach and the insurance approach in IPSAS 42.

Non-Exchange Expenses Project

BC40. As noted in paragraph BC14, the IPSASB has adopted a narrower definition of social benefits, considering that this would best meet the project management needs of both the social benefits project and the non-exchange expenses project.

BC41. The IPSASB issued a CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. In this CP, the IPSASB expressed a preliminary view that a performance obligation approach would be appropriate for recognizing and measuring some types of non-exchange expense transactions. Consequently, the IPSASB considered whether such an approach could be applied to social benefits.

BC42. The IPSASB noted that social benefits are provided where a social risk has occurred, for example an individual has become unemployed or an individual has reached retirement age. The IPSASB concluded that social risks do not involve performance of an obligation by the individual and, consequently, the performance obligation approach would not be appropriate for recognizing and measuring social benefits. For similar reasons, the IPSASB is not proposing to adopt the performance obligation approach to non-exchange expenses for universally accessible services and collective services.

General Approach (paragraphs 6–25)

Recognition

BC43. In developing the CP, *Recognition and Measurement of Social Benefits*, the IPSASB identified five distinct points at which a case could be made for recognizing a social benefit obligation in the financial statements. These were:

(a) Key participatory events have occurred;

(b) Threshold eligibility criteria have been satisfied;

(c) The eligibility criteria to receive the next benefit have been satisfied;

(d) A claim has been approved; and

(e) A claim is enforceable.

BC44. The CP sought respondents' views on these possible obligating events. The CP also asked respondents whether a future IPSAS should consider that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose.

BC45. In reviewing the responses to the CP, the IPSASB noted that there was substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. The IPSASB agreed to take this view into account in determining which obligating events should be included in ED 63.

BC46. The IPSASB also noted, however, that there was no consensus as to the range of different points at which an obligating event could arise. The IPSASB therefore focused on analyzing the various obligating events by reference to the *Conceptual Framework,* noting respondents' comments where these provided evidence about a particular obligating event or raised other matters that required consideration.

BC47. In developing the CP, the IPSASB had initially agreed that aligning the recognition and measurement of social benefits with GFS could only be considered once responses had been reviewed. Subsequently, the IPSASB noted that a range of recognition points might be appropriate under the general approach.

BC48. If this were the case, this would implicitly reject alignment of the recognition and measurement of social benefits with GFS under the general approach. This is because, under GFS, an expense is recorded only when the payment of the social benefits is due (i.e., in line with the claim is enforceable obligating event only).

BC49. The IPSASB also concluded that consistency with the *Conceptual Framework* should take priority over alignment with the GFS treatment. Any alignment that emerged from the IPSASB's deliberations would, therefore, be coincidental.

Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Recognition

BC50. The IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement. This could be the case where a social benefit was intended to be provided on a "one-off" or short-term basis. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of the requirement to satisfy ongoing eligibility criteria.

BC51. The first possible obligating event identified in the 2015 CP that took account of the requirement to satisfy ongoing eligibility criteria was that the eligibility criteria to receive the next benefit have been satisfied. Respondents to the CP gave significant support to the inclusion of this obligating event. Respondents noted that for some social benefits, the satisfaction of the eligibility criteria by a potential beneficiary would be sufficient to give rise to a legal obligation for an entity. Where this was not the case, respondents considered that this possible obligating event would give rise to a non-legally binding obligation. The IPSASB agreed with these comments.

BC52. A small number of respondents did not support this possible obligating event, arguing that an entity still had discretion to avoid payment until a claim has been approved. These respondents commented that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power.

BC53. The IPSASB did not support this view. The IPSASB noted that paragraph 5.22 of the *Conceptual Framework* addressed the issue of sovereign power:

"Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability."

BC54. The IPSASB concluded that a beneficiary satisfying the eligibility criteria to receive the next social benefit would give rise to a present obligation that meets the definition of a liability. Consequently, the IPSASB agreed that the 'eligibility criteria to receive the next social benefit have been satisfied' obligating event should be included as an obligating event in ED 63.

BC55. The IPSASB next considered the claim has been approved and claim is enforceable obligating events. The IPSASB noted that respondents generally did not support the use of these obligating events. In particular, a significant majority of respondents opposed the use of the claim is enforceable obligating event, arguing that it would limit the recognition of a liability to those cases where a legal obligation existed. Respondents argued that this was inconsistent with the *Conceptual Framework,* which recognizes that liabilities can arise from non-legally binding obligations.

BC56. Respondents also argued that, once eligibility criteria have been satisfied, a present obligation that the entity would have little or no realistic alternative to avoid would usually arise. Consequently, a liability would arise prior to a claim being approved or becoming enforceable.

BC57. The IPSASB concurred with respondents' views, and decided that, for social benefits where there was a requirement to satisfy ongoing eligibility criteria only the 'eligibility criteria to receive the next social benefit have been satisfied' obligating event should be included in ED 63.

BC58. In coming to this conclusion, the IPSASB noted that there may be social benefits where the eligibility criteria are not met until a claim has been approved or is enforceable. The IPSASB considered these obligating events to be effectively subsets of the 'eligibility criteria to receive the next social benefit have been satisfied' obligating event. Consequently, these obligating events did not need to be separately addressed.

Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Measurement Only

BC59. As noted in paragraph BC50, the IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement.

BC60. In developing ED 63, the IPSASB considered whether, for some other social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition.

BC61. The IPSASB noted that for a liability to exist, there has to be a past event that gives rise to the liability. The IPSASB considered the nature of the past event for a social benefit and concluded that the past event is the satisfaction of all eligibility criteria, which may include being alive. Consequently, any liability that arises is only for the next social benefit. Additional liabilities only arise when all eligibility criteria are met for further social benefits.

BC62. In coming to this conclusion, the IPSASB also had regard to a number of supporting points:

(a) Accepting that the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition, could result in entities reporting present obligations for long-term social benefits for certain social benefit schemes (primarily old-age pensions). For other social benefit schemes,

entities would recognize relatively short-term social benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).

(b) Being alive is an explicit eligibility criterion for some social benefit programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with this eligibility criterion. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, or others to report deaths. Further, many public sector entities retract social benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death. For other social benefit programs, being alive is an implicit eligibility criterion. Similar recovery action is taken where social benefits were improperly paid to beneficiaries who are not alive.

(c) Meeting all eligibility requirements creates an obligation to provide a social benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related social benefits are clearly established. For example, a social benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criteria.

(d) The requirement to satisfy ongoing eligibility criteria (including revalidation) is consistent with the approach the IPSASB proposed for universally accessible services and collective services in its CP, *Accounting for Revenue and Non-Exchange Expenses.*

BC63. The IPSASB also considered paragraph 5.21 of the *Conceptual Framework,* which states (emphasis added):

"Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability."

BC64. The IPSASB considered whether, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This would be as a result of legal obligations arising with the passage of time without the beneficiary having to take any further action or meet further conditions.

BC65. The IPSASB concluded this was not appropriate. Paragraph 5.21 of the *Conceptual Framework* relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.

BC66. Consequently, the IPSASB considered that the only appropriate obligating event is that all eligibility criteria for the next social benefit have been met. The IPSASB concluded that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the social benefit arises.

BC67. The IPSASB also considered that there would be practical difficulties with recognizing a liability prior to all eligibility criteria for the next payment (including being alive) being satisfied. The IPSASB noted that approaches such as 'threshold eligibility criteria have been met' are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The IPSASB was not convinced that this would be the case in all instances, and considered that there may be situations where:

(a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria to be satisfied; or

(b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria to be satisfied.

BC68. The IPSASB considered that similar difficulties would arise with other obligating events that occur prior to all eligibility criteria being satisfied, such as 'key participatory events have occurred'.

BC69. The IPSASB considered that, under these alternative obligating events, determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen could only be determined on a case by case basis. The IPSASB considered that this would result in inconsistent application of any IPSAS based on ED 63, and considered that this was a further reason for not including the 'threshold eligibility criteria obligating event' in ED 63.

BC70. The IPSASB concluded that only the 'eligibility criteria for the next social benefit have been met' recognition point should be included in ED 63, and that the accounting treatment should reflect that being alive may be an eligibility criterion (whether explicitly stated or implicit) that affects recognition.

Approach to Developing Exposure Draft 63

BC71. In coming to the conclusion that only the 'eligibility criteria for the next social benefit have been met' recognition point should be included in ED 63, the IPSASB did not reach consensus, with some members holding the view that other recognition points should also be included in ED 63.

BC72. These members were of the opinion that prescribing a single recognition point applicable to all social benefits is inappropriate, as this approach:

(a) Does not reflect the economic substance of different social benefits;

(b) Is not in accordance with the *Conceptual Framework*; and

(c) Treats "being alive" as a recognition criterion instead of a measurement criterion.

BC73. These members therefore proposed, in an Alternative View, that the obligating event should be dependent on the economic substance of each social benefit scheme. The conceptual basis for these members' Alternative View is set out in paragraphs BC74–BC93 below.

Conceptual Basis for Alternative View

BC74. In the view of those members, for some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied would be appropriate. For other social benefits, a liability should be recognized at an earlier point. For example, a liability for all remaining benefits might be recognized when an individual reaches retirement age, or a liability might be accrued over time as an individual makes contributions. Preparers would determine which obligating event is most appropriate for their individual social benefit schemes, based on their economic substance.

The Approach Set Forth in ED 63 did not Reflect the Economic Substance of Different Social Benefits and thus did not Result in Information that Meets the Needs of Financial Statement Users

BC75. The members who proposed the Alternative View noted that the IPSASB's constituents who responded to the *Consultation Paper, Recognition and Measurement of Social Benefits*, expressed substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. Therefore, these members did not dispute that in some cases a liability in respect of social benefits should be recognized only when the eligibility criteria for receipt of the next benefit (but not with the inclusion of being alive) have been satisfied, but they disputed this for other cases.

BC76. They considered that since social benefit schemes vary, they can give rise to differing expectations throughout the population as a whole. For example, a social benefit scheme designed to be funded by future beneficiaries (i.e., operating on a pay-as-you-go basis) will give rise to expectations at the reporting date of entitlement amongst current recipients and potential future recipients, for example, based on the fact that individuals have contributed in the past. A differently designed social benefit scheme may not give rise to equal expectations.

BC77. These members accepted that the relative validity of these expectations may differ, for example expectations may be based on a legal right to receive a benefit notified to the scheme's recipients and participants, on a long running precedent, or on other, less compelling grounds. Thus they contended that the nature of the expectations in any given case must be taken into account in the determination of whether an entity has a realistic alternative to avoid an outflow of resources when recognizing a liability in relation to social benefits.

BC78. These members therefore considered that treating all social benefits in the same manner, regardless of different economic substance, would not provide users with the information they needed to assess social benefits.

BC79. These members believed that financial statement users need relevant, faithfully representative information as to the economic substance of social benefits for their different decision making purposes, including, where relevant, assessing the intergenerational impacts of social benefits.

BC80. For example, in respect of a state pension scheme designed to be funded on an inter-generational basis, the amount of the entity's present obligation at the reporting date (excluding being alive as an entitlement criterion) to both current beneficiaries and participants provides useful information as to the magnitude as at the reporting date of pension payments that will need to be funded by future contributions from current and future participants.

BC81. Not recognizing a liability at the reporting date beyond the next payment would not facilitate, for example, the reflection of changes in policy for state pensions (for example, raising retirement age) in the amount of the liability at a subsequent reporting date. It will also give a false message to current beneficiaries and participants as well as to future contributions as to the entity's acknowledgement of their respective entitlements.

BC82. Furthermore, not recognizing an obligation at the reporting date beyond the next payment does not reflect the economic substance of contributory schemes. Contributions will be shown as revenue when paid by the participant, whereas the part of the benefit that is earned with this payment will not be shown at this point in time as an obligation, but only (probably years later) when the payment is made to the then beneficiary, respectively the former participant.

The Approach Set Forth in ED 63 was not in Accordance with the IPSASB's *Conceptual Framework*

BC83. In the view of the members who proposed an Alternative View, the approach in ED 63 would not achieve the qualitative characteristics: relevance, faithful representation, understandability or comparability.

BC84. These members also considered that reflecting the economic substance of a social benefit is necessary to meet the qualitative characteristic of comparability, which the Conceptual Framework defines as "the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena." Therefore, these members disagreed with the argument of inconsistent application, as explained in paragraph BC69. In contrast these members contended that if the economic substance of the social benefits differs amongst schemes and jurisdictions, those differences should be reflected in the financial statements' accounting for social benefits. This would be a consistent application of accounting principles to different economic phenomena resulting in different accounting outcomes.

BC85. Consequently, these members considered that, for some social benefits, it would be appropriate to recognize a liability that exceeds the amount of benefit until the next point at which eligibility criteria are required to be satisfied. They noted that paragraph 8.15 of the IPSASB's *Conceptual Framework's* explains that disclosure (in the notes accompanying the financial statements) is not a substitute for display (on the face of a financial statement).

BC86. They pointed out that the IPSASB's *Conceptual Framework* states the following (emphasis added):

> 5.14. A liability is: A present obligation of the entity for an outflow of resources that results from a past event.
>
> 5.15. Public sector entities can have a number of obligations. A present obligation is a **legally binding** obligation (legal obligation) or **non-legally binding obligation**, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.
>
> 5.20. …For some types of non-exchange transactions, judgement will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has no realistic alternative to avoid the obligation and a liability exists.
>
> 5.25. The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgements whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid an outflow of resources include:
>
> - The nature of the past event or events that give rise to the obligation…
> - The ability of the entity to modify or change the obligation before it crystallizes…
> - There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation….
>
> 5.26. "Economic coercion", "political necessity" or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation."

BC87. They contended that in accordance with the IPSASB's *Conceptual Framework*, in some cases a liability may arise from a key participatory event that occurs prior to the eligibility criteria for the next benefit having been satisfied. This may be the case, for example, in respect of certain contributory social benefit schemes, or where there is a legally binding present obligation.

The Criterion "Being Alive" is not a Recognition Criterion, but a Measurement Criterion

BC88. These members did not consider that being alive at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the recognition of an entity's present obligation in respect of all social benefits.

BC89. They noted that whilst it cannot be certain that a specific individual who meets the eligibility criteria at the reporting date will be alive at the point in time the next provision of social benefit is due, it is reasonable to assume that a measurable number of individual beneficiaries will be alive into the future and therefore the entity can have a binding present obligation at the reporting date in respect of provision of the social benefit beyond the next due installment of the social benefit.

BC90. They did not believe that there is a social benefit-specific imperative to treat "being alive" differently in comparison to its treatment in regard to other economic phenomena such as a pension payable as a post-employment benefit to public sector employees pursuant to IPSAS 39. Where applicable, reference to, e.g., mortality statistics etc. could equally be made in measuring liabilities for social benefits.

BC91. These members considered that the inclusion of being alive as a recognition criterion, resulting in a present obligation for only the next due benefit for all social benefits, would distort the recognition of entity's present obligation in relation to social benefits, for example pension schemes, since in many cases it would result in recognition of a liability for only the provision of the next social benefit. Such an approach fails to recognize the valid expectation of longevity in a given recipient population and cannot provide relevant information about social benefit schemes.

BC92. In their view, being alive was therefore a criterion to be taken into account in the measurement of social benefit liabilities. In this context, they also noted that the material in ED 63 in regard to measurement might need further consideration in order to include being alive as a measurement criterion.

BC93. The definition of a liability in the *Conceptual Framework* requires that an item can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports. The members who proposed the Alternative View recognized that accounting estimates are subject to inherent estimation uncertainty; this requirement can usually be met when recognizing liabilities existing at the reporting date for future payments for appropriate social benefits. Uncertainties as to the actual amount likely to be settled at a future date or the ability of the entity to settle would be reflected in the measurement of the liability. Uncertainties such as how many recipients will reach which age before dying are dealt with by reference to mortality statistics etc.

Arguments for Stakeholders' Consideration in ED 63

BC94. As a consequence of the lack of consensus, the IPSASB agreed to develop ED 63 in a manner that would allow stakeholders to consider the different arguments. The 'eligibility criteria for the next social benefit have been met' recognition point was included in ED 63 as all members agreed that this would be appropriate for at least some social benefits. Other recognition points were not included in ED 63 as some members considered that these recognition points would never be an appropriate recognition point for a social benefit. In agreeing to develop ED 63 in this manner, the IPSASB noted that members who supported the inclusion of other recognition points had set out their reasoning in an Alternative View. The IPSASB considered it important from a public interest perspective that this reasoning was exposed to stakeholders.

BC95. In agreeing to develop ED 63 in this manner, the IPSASB confirmed its previously expressed view that the financial statements cannot satisfy all of a user's information needs on social benefits. Further information about the long-term fiscal sustainability of those social benefit schemes is required. The IPSASB considered that adoption of the guidance in RPG 1 would provide users with the information they need. Consequently, the IPSASB agreed to encourage entities to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances. In so doing, the IPSASB also noted that such information would be equally helpful where an entity had adopted the insurance approach.

Responses to ED 63, *Social Benefits*

BC96. The responses to ED 63 reflected the wide range of views that had surfaced during the IPSASB's deliberations in developing ED 63. While a number of respondents supported the proposals in ED 63, a similar number supported the approach outlined in the Alternative View (see paragraphs BC71–BC93 above).

BC97. The reasons given by respondents for supporting either the proposals in ED 63, the Alternative View, or some variation on either of these approaches generally reflected the issues the IPSASB had debated in arriving at its proposed approach.

BC98. Where new issues were raised by respondents, these generally reflected concerns that the information that would be presented under the Alternative View could be misunderstood. One respondent was concerned that the Alternative View, by recognizing liabilities at an earlier point, might provide perverse incentives to reduce the time span of social benefits and thus avoid recognition of bigger liabilities and bigger related expenses. Similarly, one respondent was concerned that the larger liabilities that would be recognized under the Alternative View could

be misleading; in their view, a forward looking approach, taking account of future benefits and contributions, is required to assess the sustainability of social benefits such as state pensions.

BC99. The IPSASB concluded that these issues reflected the Board's earlier debates about the users' information needs and the qualitative characteristics.

BC100. The IPSASB noted that there was no consensus about whether recognizing a large liability for social benefits without also recognizing an asset for the future taxation or contribution revenue that would fund the settlement of that liability would provide useful information. There were different views as to whether the recognition or non-recognition of this liability would best satisfy the qualitative characteristics of relevance, faithful representation, understandability and comparability.

BC101. However, because the consultation process had not generated any significant new conceptual issues, the IPSASB did not consider that undertaking further work in developing the conceptual approach to social benefits would be fruitful. The long history of the IPSASB's work on social benefits suggested that the strong views held by individuals on both sides of the argument were unlikely to be changed by any such further work at this stage.

BC102. Consequently, the IPSASB agreed to proceed with an IPSAS based on the proposals in ED 63.

BC103. In coming to this conclusion, the IPSASB noted that preparers' experiences of applying an IPSAS on social benefits along with users' experiences of using the information provided may suggest ways of better reconciling the different views that exist. The IPSASB therefore considered it likely that a post-implementation review of IPSAS 42 would be appropriate at some point in the future.

BC104. In developing an IPSAS based on the proposals in ED 63, the IPSASB noted that many respondents, whether they supported the proposals in ED 63 or the Alternative View, were concerned that 'being alive' had been over-emphasized in the Exposure Draft. They considered that there were circumstances where reliance on being alive would be inappropriate. Some respondents also expressed concerns over the different treatment of 'being alive' in ED 63 and in IPSAS 39. However, a small minority of respondents considered that the reliance on being alive was necessary.

BC105. The IPSASB considered these comments, and agreed to modify the requirements to reduce the emphasis on being alive. The IPSASB considered that in many cases, being alive would be an eligibility criterion, and that being alive would therefore affect recognition of a liability. The IPSASB acknowledged, however, that this might not always be the case, and that the IPSAS should reflect this.

BC106. In making these changes, the IPSASB included additional guidance that the satisfaction of the eligibility criteria for each social benefit payment is a separate past event. Satisfaction of the eligibility criteria for a benefit beyond the next payment is a future event that does not give rise to a present obligation.

BC107. In acknowledging that there had been significant support for the Alternative View, the IPSASB considered whether it would be appropriate to accommodate both accounting treatments in IPSAS 42. This would permit preparers to use the Alternative View for social benefit schemes where they determine that a different past event to that proposed in ED 63 is appropriate. The IPSASB concluded that this would not satisfy the qualitative characteristic of consistency, and decided not to incorporate the accounting treatment set out in the Alternative View into IPSAS 42.

Use of Term "Resources"

BC108. In developing ED 63, the IPSASB included recognition requirements that referred to an entity having "a present obligation for an outflow of resources that results from a past event." Following the decision to clarify that the definition of social benefits only includes cash transfers, the IPSASB debated whether the use of the term "resources" in the recognition requirements should be replaced with the term "cash transfers." The IPSASB noted that the definition of a liability in the *Conceptual Framework* referred to "resources", and as a consequence the Board agreed to retain that term in the recognition requirements.

Measurement

BC109. In developing the 2015 CP, the IPSASB came to a preliminary view that, "under the obligating event approach [general approach], liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits." The *Conceptual Framework* defines the cost of fulfillment as "the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."

BC110. The IPSASB came to this view because:

(a) Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a historical cost value could be based. Historical cost can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.

(b) It is extremely unlikely that there will be a market value for social benefits.

(c) In the context of social benefits, the cost of release is the amount that "a third party would charge to accept the transfer of the liability." For social benefits, a transfer of the liability will rarely be practically possible.

(d) Assumption price "is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability." This is not relevant to the measurement of social benefits under the general approach. Under this approach, the liability is viewed as arising as a result of the public sector entity's own actions.

BC111. Respondents to the CP supported this view, as did respondents to ED 63. Consequently, the IPSASB agreed that liabilities in respect of social benefits should be measured using the cost of fulfillment (i.e., the social benefit payments to be made, discounted where the payment will not be made in the next year). In coming to this decision, the IPSASB agreed that the cost should refer to the cash transfer being made, and should not include other elements such as administrative costs and bank charges.

Revenue

BC112. At the time of developing IPSAS 42, the IPSASB had an ongoing project to review the requirements in all of its revenue standards. The IPSASB decided that social contributions (revenue in respect of a social benefit scheme) and similar compulsory contributions and levies would be best addressed in that project, to ensure that all revenue is accounted for on a consistent basis. However, as the IPSASB had concluded that social contributions are non-exchange transactions, the IPSASB agreed to amend IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to clarify that social contributions are accounted for in accordance with that Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit schemes accounted for under the insurance approach are not accounted for as revenue under IPSAS 23.

Disclosure

BC113. In developing ED 63, the IPSASB agreed that entities should disclose information that explains the characteristics of - its social benefit schemes; identifies and explains the amounts in its financial statements arising from its social benefit schemes; and quantifies and explains the future cash flows that may arise from its social benefit schemes.

BC114. The IPSASB considered whether to provide guidance on aggregating the disclosures for social benefit schemes that are not individually material. The IPSASB noted that IPSAS 1*, Presentation of Financial Statements*, contains guidance on materiality and aggregation, and concluded that no further guidance was required.

BC115. As part of the explanation of the characteristics of a social benefit scheme, the IPSASB agreed that an entity should explain how a social benefit scheme is funded. Where a scheme is funded, (whether in full or in part) by social contributions, an entity is required to provide a cross reference to the location of information on those social contributions. Although IPSAS 42 does not address social contributions (as explained in paragraph BC112 above), the IPSASB considers that users will need information about social contributions in order to make assessments of social benefit schemes. However, the IPSASB acknowledges that in some jurisdictions, social contributions for various social benefits may be collected by one entity, and the social benefits provided by another entity. In these circumstances, the entity that provides the social benefits would include a cross reference to the financial statements of the entity that collects the social contributions.

BC116. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB decided not to require such disclosures. However, in developing ED 63 the IPSASB agreed that providing the entity's best estimate of the projected cash outflows for the next five reporting periods would provide useful information for users of the financial statements. The IPSASB considered that such information would assist users in assessing the liquidity and solvency of the entity.

Responses to ED 63, *Social Benefits*

BC117. Respondents to ED 63 generally supported the proposed disclosures about the characteristics of an entity's social benefit schemes, and the IPSASB agreed to retain these disclosures in IPSAS 42.

BC118. Most respondents also supported the proposed disclosures of the amounts in the financial statements. However, some respondents questioned the level of detail required when presenting the amounts in the financial statements. Given the likely short-term nature of the liabilities that would be recognized in respect of social benefits, these respondents did not consider that the proposed reconciliation (of the opening and closing balances of the liability) would provide any information that would not be available elsewhere in the financial statements. They considered that the requirement to present the reconciliation could be removed without any loss of information. The IPSASB concurred with the view of these respondents that the reconciliation of the liability was not necessary. The IPSASB did consider, however, that users would need information about the expenditure on each material social benefit scheme, and agreed to require the disclosure of this information rather than the reconciliation.

BC119. With regards to the proposed disclosure of future cash outflows, there was no consensus among respondents. Respondents, regardless of whether they supported the proposed disclosure or not, raised a number of issues:

(a) Future cash flows are not required for other transactions (such as tax revenue).

(b) Financial statements report on the current position of an entity, whereas future cash outflows are part of an entity's budget forecast information, not information about the current position.

(c) Projections of outflows are best considered together with projections of inflows and are most useful when they are comprehensive, rather than focusing on a single social benefit scheme. In many cases, it would not be possible to project cash inflows for a single social benefit scheme as a number of social benefit schemes will be funded from the general tax take.

(d) Disclosing future cash outflows could imply that the future cash outflows represent a liability or obligation, which is inconsistent with the general approach.

BC120. The IPSASB accepted the concerns raised by respondents, in particular the concern that the disclosure would go beyond reporting on the current position of an entity. Consequently, the IPSASB agreed to remove the requirement to disclose future cash outflows.

BC121. The IPSASB considered, however, that users would need some information to help them assess how circumstances may impact social benefit schemes. The IPSASB therefore agreed to require preparers to provide

a narrative disclosure explaining the demographic, economic and other external factors that affect its social benefit schemes.

BC122. A further suggestion from respondents was that an entity should disclose where a social benefit scheme met the criteria to be accounted for using the insurance approach. The IPSASB agreed that this is important information about the characteristics of a social benefit scheme, and that an entity should disclose where the criteria for using the insurance approach had been satisfied.

Insurance Approach (paragraphs 26–31)

Application of the Insurance Approach

BC123. In the CP, *Recognition* and Measurement of Social Benefits, the IPSASB proposed an approach based on insurance accounting for some or all contributory schemes. The IPSASB proposed that this approach should be based on the IASB's proposed IFRS Standard on insurance contracts, contained in Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). This ED has subsequently been further developed and issued as IFRS 17, *Insurance Contracts*.

BC124. Respondents to the CP generally supported the IPSASB's proposals regarding the insurance approach, although a number of concerns were raised. Respondents considered that the insurance approach should only be applied in limited circumstances. These were that the social benefit scheme operated in a similar manner to an insurance contract, and that the scheme was funded from dedicated sources of revenue, not general taxation. Respondents considered that applying the insurance approach to other social benefit schemes would not faithfully represent the economic substance of those schemes.

BC125. The IPSASB concurred with this view. Consequently, the IPSASB agreed that the insurance approach should only be applied where:

(a) The social benefit scheme is intended to be fully funded from contributions; and

(b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

BC126. In developing ED 63, the IPSASB then considered whether the insurance approach should be mandatory for social benefit schemes that meet the criteria, or optional.

BC127. The IPSASB considered that, for a social benefit scheme that meets the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to assess whether the entity is managing the financial performance of the social benefit scheme appropriately, users will need information as to whether the contributions are sufficient to meet the expected liabilities. Where a loss is recorded under the insurance approach, this will provide users with the information they need to question whether a scheme is sustainable without changes to contribution rates or benefits. Similarly, if a social benefit scheme has ongoing large surpluses, this will allow a debate as to whether that scheme is being used to subsidize other expenditure, and if so, whether this is appropriate. The IPSASB initially considered that the fact that users' needs are best met by the insurance approach was the main reason for making the insurance approach mandatory.

BC128. The insurance approach is, however, expected to be more costly and complex to implement than the general approach. Actuarial estimates may not be required under the general approach. The insurance approach will require estimates of cash inflows and cash outflows over the duration of the scheme. In addition, the IASB had only recently issued IFRS 17 and that Standard has significantly different requirements from many existing national standards dealing with insurance. Consequently, it may take some time for any practical issues to be fully identified and addressed. Applying these new requirements to social benefits would introduce a further level of complexity. The IPSASB considered that there may be cost/benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.

BC129. The IPSASB did note that, if an entity is managing a social benefit scheme as if it were a portfolio of insurance contracts, the entity may already have the information required to implement the insurance approach. It may also need that information in order to be able to effectively manage the social benefit scheme. This suggested that, where a social benefit scheme meets the criteria to be accounted for under the insurance approach, the costs associated with so doing may not be as high as it would initially appear.

BC130. The IPSASB considered that a further advantage of making the insurance approach optional would arise where an entity is having difficulty determining whether the criteria for applying the insurance approach have been met. The entity could avoid expending additional resources to make that determination by electing to apply the general approach.

BC131. However, the IPSASB accepted that making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users would not be provided with the most appropriate information about some social benefit schemes. Social benefit schemes that could be accounted for under the insurance approach are likely to have a different economic substance to other social benefit schemes, which the general approach may not fully capture.

BC132. On balance, the IPSASB considered that the insurance approach should be optional, based on the cost/benefit reasons given above. The IPSASB noted that this could be revisited at a future date, once entities have experience with applying the new IFRS Standard, and the insurance approach proposed in ED 63.

Responses to ED 63, *Social Benefits*

BC133. As discussed above, ED 63 proposed that the insurance approach should be optional. Respondents to ED 63 had mixed views on the proposal, with some respondents agreeing that the insurance approach should be optional, and others proposing that the insurance approach should be mandatory where schemes satisfied the criteria.

BC134. The IPSASB noted that the reasons given by respondents reflected the Board's earlier discussions, with the key issue being whether the benefits of the better information that the insurance approach would provide would outweigh the cost of producing that information. Some respondents were also concerned that the existence of options within IPSAS may reduce the ability of users to make comparisons between entities.

BC135. On balance, the IPSASB considered that no new information had arisen from the responses to ED 63 that was sufficiently persuasive to lead to a modification of the proposals in ED 63. The IPSASB therefore agreed to retain the insurance approach as an optional approach in this Standard.

BC136. However, the IPSASB also considered that it would be appropriate to keep this issue under review, given the lack of consensus amongst respondents and the likelihood of practice developing as entities gained practical experience of implementing both this Standard and IFRS 17. This practical experience may cause the IPSASB to reconsider its view on the cost-benefit balance.

BC137. Most respondents to ED 63 agreed that the criteria for determining whether an entity was permitted to apply the insurance approach were appropriate. However, some respondents had doubts regarding the requirement that the social benefit scheme is intended to be fully funded from contributions.

BC138. These respondents considered that there would be cases where the requirements in IFRS 17 would be appropriate where a scheme was substantially funded from contributions rather than fully funded from contributions. A particular concern was that a scheme could be classed as fully funded by an individual entity, where another entity made contributions on behalf of those who could not afford to do so, but that the scheme would not be classed as fully funded in the consolidated financial statements. These respondents considered that the management of the scheme was more significant than the funding approach.

BC139. The IPSASB noted these concerns. The IPSASB remained of the view that a scheme that was designed to be funded in part through general taxation was not being managed in the same way as an insurance portfolio.

BC140. However, the IPSASB agreed that where an entity made contributions on behalf of those who could not afford to do so, these should be treated as contributions and the scheme classified as being fully funded from contributions. The IPSASB agreed to include Application Guidance to clarify this point.

BC141. Some respondents also commented that the decision as to whether the criteria for applying the insurance approach have been satisfied should focus on substance over form. The IPSASB noted that substance over form is embedded in the *Conceptual Framework* notion of faithful representation. However, the IPSASB agreed that additional Application Guidance emphasizing the need to consider substance over form in assessing the criteria for applying the insurance approach would be helpful for preparers.

Accounting Requirements

BC142. In the CP, *Recognition and Measurement of Social Benefits,* the IPSASB proposed that the insurance approach should be based on the IASB's Exposure Draft.

BC143. The IPSASB identified three options for introducing the insurance approach in ED 63:

(a) Develop the insurance approach in ED 63. The IPSASB noted that this option would be consistent with the proposals in the CP, and would be tailored to social benefits. However, this option would significantly increase the duration of the project, and would not have wider application.

(b) Develop a separate IPSAS on insurance. The IPSASB noted that this would fill a gap in the IPSASB's literature and could address social benefits as well as having wider application. However, the IPSASB noted that such an IPSAS was not included in the IPSASB's work plan, and that developing an additional Standard would delay the social benefits project.

(c) Direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme that meets the criteria for applying the insurance approach. The IPSASB noted that this would require less resources and would ensure consistency with IFRS. However, guidance on social benefit specific issues might be required.

BC144. The IPSASB noted that the number of preparers to whom the insurance approach will be relevant is likely to be small. The IPSASB also noted that the criteria for applying the insurance approach meant that only those social benefit schemes that were very similar to insurance contracts would be affected.

BC145. The IPSASB concluded, therefore, that the additional time and resources required to develop the insurance approach, either in ED 63 or as a separate IPSAS on insurance, could not be justified. The IPSASB agreed to direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme:

(a) That meets the criteria for applying the insurance approach; and

(b) Which the entity elects to account for under the insurance approach.

BC146. The IPSASB then considered whether any guidance on social benefit specific issues was required when applying IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme. In particular, the IPSASB considered whether the arrangements in IFRS 17 in respect of the discount rate and the risk adjustment were appropriate for a social benefit scheme. In considering these questions, the IPSASB agreed to limit the application of the insurance approach to those cases where an entity would be referring to IFRS 17 or a national standard that has adopted substantially the same principles as IFRS 17. This is because other standards, for example IFRS 4, *Insurance Contracts* (and national standards based on IFRS 4) may not provide information that meets users' needs and satisfy the qualitative characteristics.

BC147. The requirements in IFRS 17 specify that the selected discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract. The IPSASB noted

that these requirements differ from those in IPSAS 39, *Employee Benefits*, where no liquidity adjustment is included in the discount rate.

BC148. The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 39.

BC149. The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid. In developing the CP, the IPSASB questioned whether the notion of a policy holder demanding a higher market yield is relevant where the terms of a social benefit are prescribed by government.

BC150. For these reasons, the IPSASB came to the view, in developing the CP, that the discount rate used under the insurance approach should not include a liquidity adjustment. The IPSASB took the view at that time that the discount rate approach in IPSAS 39 was appropriate. Respondents to the CP generally concurred with this view.

BC151. The IPSASB noted that IFRS 17 requires the use of a risk adjustment. In developing the CP, the IPSASB had noted that there were differing views on the appropriateness of a risk adjustment in the context of social benefits:

> 6.42 For some social security schemes, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and benefits provided is relatively stable. In these circumstances, information about the best estimate of the entity's liability related to the scheme may be most useful to users of the financial statements.
>
> 6.43 For other social security schemes, there may be significant uncertainty regarding future cash flows. In these circumstances, some consider that the use of the assumption price measurement basis may be more appropriate. They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the scheme. Others consider that the use of the assumption price measurement basis is not appropriate for the public sector where there is no third party that might assume the liability. They argue that applying a risk adjustment results in an estimate other than the best estimate of the claims on the entity's resources in regard to the scheme; such an estimate may not be neutral and may therefore not satisfy the qualitative characteristic of faithful representation.

BC152. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfillment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.

BC153. In the light of these comments, the publication of IFRS 17 by the IASB, and the decision to direct preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy, the IPSASB revisited its conclusions in the CP.

BC154. The IPSASB acknowledged that the views discussed in the CP were still valid. The IPSASB also accepted that adopting the discount rate included in IPSAS 39, and not including a risk adjustment, would produce greater consistency with social benefit schemes recognized and measured using the general approach. Conversely, retaining the discount rate included in IFRS 17, and retaining the risk adjustment, might result in significantly different amounts being included in the financial statements.

BC155. In addition, the IPSASB considered that amending the requirements of IFRS 17 could only be achieved by undertaking significant due process on that standard, in order to ensure there were no unintended consequences. This would require a significant use of resources, which would defeat the IPSASB's intentions in directing

preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy (see paragraph BC145 above).

BC156. The IPSASB also noted that inconsistencies in the application of discount rates was a wider issue, and that a number of standard setters, including the IASB, were undertaking work on this area.

BC157. Finally, the IPSASB noted that the insurance approach was optional, not a requirement (although, as noted in paragraph BC132 above, this might be subject to review at a later date). An entity that considered the use of different discount rates problematic could elect to account for all its social benefit schemes using the general approach.

BC158. For these reasons, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes in ED 63.

Responses to ED 63, *Social Benefits*

BC159. Respondents generally agreed with the IPSASB's proposal to direct preparers to IFRS 17 or national standards that have adopted substantially the same principles as IFRS 17.

BC160. However, a minority of respondents considered that additional guidance on applying the insurance approach to social benefits would be helpful. In particular, these respondents considered that the IPSASB should provide guidance on discount rates and risk adjustments for social benefits, as these might be different than for commercial insurance contracts.

BC161. The IPSASB accepted that providing guidance on discount rates and risk adjustments for social benefits might assist preparers to apply the insurance approach. However, for the reasons given in paragraphs BC154–BC158 above, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes.

BC162. The IPSASB noted that entities would need to consider the requirements relating to discount rates and risk adjustments carefully. In particular, the risk adjustment is an entity specific adjustment, and entities will need to consider their unique circumstances in determining the risk adjustment.

BC163. The IPSASB also noted that some national standard setters are considering how the requirements in IFRS 17 (or national standards on insurance) in respect of discount rates and risk adjustments can be applied to social benefits and similar public sector specific transactions. The IPSASB considered that it would be appropriate for entities to consider such guidance once it becomes available.

Revision of IPSAS 42 as a result of COVID-19: *Deferral of Effective Dates*

BC164. The IPSASB published IPSAS 42, *Social Benefits* in January 2019. At the time this Standard was finalized, the Board decided that an entity shall apply it for annual financial statements covering periods beginning on or after January 1, 2022.

BC165. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of IPSAS 42.

BC166. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of IPSAS 42.

BC167. The Board did not propose any changes to the Standard other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Revision of IPSAS 42 as a result of IPSAS 46, *Measurement*

BC168. The IPSASB issued IPSAS 46, *Measurement*, in May 2023. That Standard provides guidance on measuring liabilities at the cost of fulfillment, which is relevant to measuring the liability for social benefits under the general approach. That guidance includes a requirement that a risk adjustment is considered in estimating the cost of fulfillment. Generally, this is not expected to affect the measurement of the liability under the general approach given the short-term nature of most social benefit liabilities.

BC169. While the guidance on measuring liabilities at cost of fulfillment is not expected to change the measurement of liabilities for social benefits under the general approach in the majority of cases, the IPSASB agreed to amend Illustrative Examples 9 and 10 to avoid references to using information about payments made after the reporting date, which might conflict with the guidance in IPSAS 46. The IPSASB noted that the provisions in other IPSAS regarding materiality would allow entities to use information about payments made after the reporting date where the effect of doing so was not materially different from using estimates made at the reporting date.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 42.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 42.

Scope of IPSAS 42

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

	Transfer Expenses (IPSAS 48)	Provisions (IPSAS 19)		Social Benefits (IPSAS 42)	Other IPSAS/IFRS		
Category	**Transfer Expenses**	**Collective Services**	**Individual Services**	**Social Benefits**	**Employee Benefits**	**Contracts for Insurance**	**Contracts for Goods and Services**
Examples	Transfers to other public sector entities Transfers to charities	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Type Transaction?	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/ households	Sometimes	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	Sometimes	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	Yes	Yes	Yes	No	No	No
			Scope of Social Benefits in GFS				

Recognition and Measurement of Liabilities and Expenses in IPSAS 42

IG3. **Where a retirement pension is paid monthly in arrears, will the liability at the reporting date be the same as the amount paid in the following month?**

IG4. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:

(a) Timing differences. The payment in the month following the reporting date may include payments that do not form part of the liability at that reporting date. For example, an entity prepares its financial statements as at December 31. If retirement benefits are paid on the 15th of each month, the payment made on

January 15 may include payments made to individuals who reached retirement age between January 1 and January 15. The payments to these individuals will not form part of the liability as at December 31, because, at that date, those individuals had not met the eligibility criteria for the retirement pension.

(b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.

IG5. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 1, *Presentation of Financial Statements.*

IG6. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**

IG7. For a social benefit scheme that has ongoing eligibility criteria (other than being alive, where this is an eligibility criterion) an individual may alternate between periods when they meet the eligibility criteria for the next social benefit payment, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognized and measured separately.

IG8. For example, an entity prepares its financial statements as at December 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on January 10 and ceases to be eligible for the unemployment benefits. This employment ends on January 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment might be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 42

Scope and Definitions

Illustrating the Consequences of Applying Paragraphs 3–5 and AG1–AG10 of IPSAS 42

IE1. The following scenarios illustrate the process for determining whether a transaction is within the scope of IPSAS 42, *Social Benefits.* These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 42.

Example 1–Provision of Retirement Benefits to Government Employees

IE2. Employees of Province A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided are based on the final salary of the employees, and their length of service.

IE3. The retirement benefits are cash transfers provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that the employees have sufficient income once they reach retirement age.

IE4. However, the retirement benefits do not address the needs of society as a whole, as they are only available to former employees of Province A. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of IPSAS 42. The retirement benefits are employee benefits, and are accounted for in accordance with IPSAS 39, *Employee Benefits*.

Example 2–Provision of State Retirement Pension

IE5. Government B pays a minimum state retirement pension to all citizens and residents who have reached the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the state retirement pension pays the same amount to each retiree regardless of the contributions made.

IE6. The retirement benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.

IE7. The retirement benefits address the needs of society as a whole. Paragraph AG7 of IPSAS 42 notes that the “assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.

IE8. Consequently, the state retirement pension is within the scope of IPSAS 42.

Example 3–Provision of Universal Healthcare Services

IE9. Government C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.

IE10. The healthcare services are provided to specific individuals who meet eligibility criteria. The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.

IE11. However, Government C is providing services rather than cash transfers. Consequently, the healthcare services are outside the scope of IPSAS 42.

Example 4–Provision of Disability Pensions

IE12. State Government D pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.

IE13. The disability pensions are provided as cash transfers to specific individuals who meet eligibility criteria. The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.

IE14. Consequently, the disability pensions are within the scope of IPSAS 42.

Example 5–Provision of Unemployment Benefits

IE15. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. The unemployment benefits are payable for a maximum of one year, and there is a two week ‘waiting period’ before the unemployment benefits are payable.

IE16. The unemployment benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.

IE17. Consequently, the unemployment benefits are within the scope of IPSAS 42.

Example 6–Provision of Emergency Relief

IE18. Following an earthquake that has caused significant damage in a region, Government F provides emergency relief to assist with reconstruction and with providing services such as temporary housing to those affected by the earthquake.

IE19. Some costs will relate to providing benefits as cash transfers to specific individuals who meet eligibility criteria. Other costs will relate to the provision of assets and services, for example the reconstruction of roads damaged by the earthquake.

IE20. The provision of assets, such as the reconstruction of roads, or services to specific individuals is not a cash transfer and consequently is outside the scope of IPSAS 42.

IE21. The emergency relief provided as cash transfers does not mitigate the effects of social risks, but instead mitigates the effects of a geographical risk – the risk of earthquake. Paragraph AG10 of IPSAS 42 explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks. Consequently, the emergency relief is outside the scope of IPSAS 42.

IE22. Following a natural disaster, individuals and/or households may subsequently become eligible for other benefits, for example unemployment benefits. These benefits may be social benefits if they satisfy the definition of a social benefit (including the requirements that they are cash transfers and they mitigate social risks).

Example 7–Provision of Defense Services

IE23. Government G maintains an army, navy and air force to provide defense for the country.

IE24. These defense services are not cash transfers provided to specific individuals who meet eligibility criteria, but instead are collective services, in that:

(a) They are delivered simultaneously to each member of the community or section of the community; and

(b) Individuals cannot be excluded from the benefits of collective goods and services.

IE25. Consequently, the provision of defense services is outside the scope of IPSAS 42.

General Approach: Recognition and Measurement

Illustrating the Consequences of Applying Paragraphs 6–21 and AG11–AG18 of IPSAS 42

Example 8

IE26. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE27. Government H provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU250 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.

IE28. Government H prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

IE29. As at December 31, 20X1, Government H recognized a liability for retirement pensions of CU1,950,500. During 20X2, Government H paid retirement pensions as follows:

Month(s)	Pensions Paid (CU)
January 20X2	1,950,500
February–December 20X2	22,258,000
Total	24,208,500

IE30. During January 20X3, Government H pays retirement pensions totaling CU2,095,750.

IE31. As at December 31, 20X2, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Consequently, Government H recognizes a liability of CU2,095,750, the full amount of the retirement pensions paid in January.

IE32. During 20X2, the total amount recognized as an expense is CU24,353,750. The breakdown of this amount is as follows:

	CU
Pensions paid in February 20X2 (recognized in January 20X2) to December 20X2 (recognized in November 20X2)	22,258,000
Pensions paid in January 20X3 (recognized in December 20X2)	2,095,750
Total	24,353,750

Example 9

IE33. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE34. Government I provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.

IE35. Government I prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

IE36. As at December 31, 20X7, Government I recognized a liability for retirement pensions of CU2,990,656. During 20X8, Government I paid retirement pensions as follows:

Month(s)	**Pensions Paid (CU)**
January 20X8	3,024,997
February–December 20X8	33,435,183
Total	36,460,180

IE37. In this example, it is assumed that there is no difference between the estimates Government I used in recognizing the liability and the actual amount of pensions paid. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).

IE38. On December 31, 20X8, Government I recognizes a liability for retirement payable to those who satisfied the eligibility criteria at that date. Government I estimates that, on January 31, 20X9, it will pay retirement pensions totaling CU3,053,576. There are three elements to this estimate as follows:

	CU
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

IE39. [Deleted]

IE40. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions that will be paid to those pensioners eligible at December 31, 20X8 and who are estimated to remain eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions that will be paid to those pensioners eligible at December 31 who are estimated to die during January 20X9 (CU36,420). The liability does not include the pro-rated pensions that will be paid to those who are estimated to reach retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

IE41. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	CU
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and estimated to remain eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who are estimated to die during January 20X9 (recognized in December 20X8)	36,420
Total	36,485,544

Example 10

IE42. The following example illustrates the process for recognizing and measuring the liability and expense for an unemployment benefit. This example is not based on actual transactions.

IE43. State Government J provides unemployment benefits to its citizens and permanent residents. The unemployment benefit scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of CU500 per month (in arrears). Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid employment in the State for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in the months in which an individual's eligibility comes to an end (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the State or dying).

IE44. State Government J prepares its financial statements as at June 30. Unemployment benefits are paid on the 15th day of each month.

IE45. As at June 30, 20X1, State Government J recognized a liability for unemployment benefits of CU125,067. During the financial year July 1, 20X1–June 30, 20X2, State Government J paid unemployment benefits as follows:

Month	**Unemployment Benefits Paid (CU)**
July 20X1	129,745
August 20X1–June 20X2	1,582,131
Total	1,711,876

IE46. In this example, it is assumed that there is no difference between the estimates State Government J used in recognizing the liability and the actual amount of unemployment benefits paid. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).

IE47. On June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. State Government J estimates that, on July 15, 20X2, it will pay unemployment benefits totaling CU132,952. There are four elements to this estimate as follows:

	CU
Unemployment benefits to be paid to unemployed persons eligible at June 15, 20X2 and are estimated to remain eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits to be paid to those unemployed persons eligible at June 15, 20X2 whose eligibility was estimated to come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits to be paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits to be paid to those unemployed persons who were estimated to become eligible between July 1, 20X2 and July 15, 20X2	4,812
Total	132,952

IE48. [Deleted]

IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:

(a) The unemployment benefits that will be paid to those unemployed persons eligible at June 15, 20X2 and who are estimated to remain eligible at July 15, 20X2 (CU113,120);

(b) The pro-rated unemployment benefits that will be paid to those unemployed persons eligible at June 15, 20X2 whose eligibility is estimated to come to an end by July 15, 20X2 (CU9,975); and

(c) The pro-rated unemployment benefits that will be paid to those unemployed persons who are estimated to become eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).

IE50. The liability does not include the pro-rated unemployment benefits that will be paid to those who are estimated to become eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.

IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:

	CU
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits estimated to be paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those estimated to remain eligible and those whose	128,140

	CU
eligibility is estimated to come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	1,714,949

COMPARISON WITH GFS

In developing IPSAS 42, *Social Benefits*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 42 uses similar concepts as GFS. For example, the concept of “social risk” in GFS is a defined term in IPSAS 42 that underpins the definition of social benefits.
- IPSAS 42 adopts a narrower definition of social benefits than GFS. IPSAS 42 limits its definition of social benefits to cash transfers (including cash equivalents). Under GFS, social benefits can be provided in cash or in kind (for example, health services).
- Under IPSAS 42, an entity recognizes a liability for the cash transfers that the entity will make until the next point at which eligibility criteria are required to be satisfied. Generally, no such liability is recognized in GFS for social benefits although liabilities are recorded for funded social insurance schemes.
- IPSAS 42 permits relevant social benefits to be recognized and measured using the insurance approach. GFS does not include this option.
- IPSAS 42 includes disclosure requirements that are not present in GFS.

IPSAS 43, *LEASES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 16, *Leases*, published by the International Accounting Standards Board (IASB®), and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* published by the IFRS® Interpretations Committee. Extracts from IFRS 16 and IFRIC 1 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 43, *LEASES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 43, *Leases* was issued in January 2022.

Since then, IPSAS 43 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards: Specific IFRIC Interpretations* (issued January 2025)
- *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (issued October 2024)
- *Improvements to IPSAS, 2023* (issued April 2024)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 46, *Measurement* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)

Table of Amended Paragraphs in IPSAS 43

Paragraph Affected	How Affected	Affected By
5	Amended	IPSAS 45 May 2023
6	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph 10	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
18	Amended	IPSAS 47 May 2023
Heading above paragraph 31	Amended	IPSAS 45 May 2023
Heading above paragraph 18A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
18A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
18B	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

Paragraph Affected	How Affected	Affected By
18C	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
18D	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
26A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
26B	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
26C	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
29A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
30	Amended	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
31	Amended	IPSAS 45 May 2023
32	Amended	IPSAS 45 May 2023
35	Amended	IPSAS 46 May 2023
36	Amended	IPSAS 45 May 2023
54	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
60	Amended	IPSAS 45 May 2023
Heading above paragraph 64A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
64A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph 65	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

Paragraph Affected	How Affected	Affected By
Heading above paragraph 71	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
71A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
78	Amended	IPSAS 44 May 2022
Heading above paragraph 81	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
81A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
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102B	New	*Improvements to IPSAS, 2023* April 2024
102C	New	*Improvements to IPSAS, 2023* April 2024
103A	New	IPSAS 44 May 2022
103B	New	IPSAS 45 May 2023
103C	New	IPSAS 46 May 2023
103D	New	IPSAS 47 May 2023
103E	New	*Improvements to IPSAS, 2023* April 2024
103F	New	*Improvements to IPSAS, 2023* April 2024
103G	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
103H	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
104	Amended	IPSAS 33 November 2025
109	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
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117B	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

Paragraph Affected	How Affected	Affected By
117C	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
117D	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
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117E	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
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Paragraph Affected	How Affected	Affected By
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AG60	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG61	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG62	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE12	Amended	*Improvements to IPSAS, 2023* April 2024

IPSAS 43, *LEASES*

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Comparison with IFRS 16

Comparison with GFS

International Public Sector Accounting Standard 43, *Leases*, is set out in paragraphs 1–127. All the paragraphs have equal authority. IPSAS 43 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. **This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.**

2. An entity shall consider the terms and conditions of contracts and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

Scope

3. An entity shall apply this Standard to all leases, including leases of right-of-use assets in a sublease, except for:

   (a) Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

   (b) Leases of biological assets within the scope of IPSAS 27, *Agriculture* held by a lessee;

   (c) Service concession arrangements within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*; and

   (d) Rights held by a lessee under licensing agreements within the scope of IPSAS 31, *Intangible Assets* for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

4. A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(d).

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

   The commencement date of the lease (commencement date) is the date on which a lessor makes an underlying asset available for use by a lessee.

   A contract, for the purpose of this Standard, is an agreement between two or more parties that creates enforceable rights and obligations.

   Economic life is either:

   (a) **The period over which an asset is expected to be economically usable by one or more users; or**

   (b) **The number of production or similar units expected to be obtained from an asset by one or more users.**

   The effective date of the modification is the date when both parties agree to a lease modification.

   Fair value, for the purpose of applying the lessor accounting requirements in this Standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

   Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

   Fixed payments are payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments.

Gross investment in the lease is the sum of:

(a) **The lease payments receivable by a lessor under a finance lease; and**

(b) **Any unguaranteed residual value accruing to the lessor.**

The inception date of the lease (inception date) is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.

Initial direct costs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.

The interest rate implicit in the lease is the rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Lease incentives are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.

Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

Lease payments are payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

(a) **Fixed payments (including in-substance fixed payments), less any lease incentives;**

(b) **Variable lease payments that depend on an index or a rate;**

(c) **The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and**

(d) **Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.**

For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.

For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.

The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

(a) **Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and**

(b) **Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.**

A lessee is an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.

The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

A lessor is an entity that provides the right to use an underlying asset for a period of time in exchange for consideration.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Optional lease payments are payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.

Period of use is the total period of time that an asset is used to fulfill a contract with a customer (including any non-consecutive periods of time).

The residual value guarantee is a guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.

A right-of-use asset is an asset that represents a lessee's right to use an underlying asset for the lease term.

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.

A sublease is a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.

Underlying asset is an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.

Unearned finance revenue is the difference between:

(a) **The gross investment in the lease; and**

(b) **The net investment in the lease.**

Unguaranteed residual value is that portion of the residual value of the underlying asset, the realization of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

Variable lease payments are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately. The defined term useful life is used in this Standard with the same meaning as in IPSAS 45, *Property, Plant, and Equipment*.

Recognition Exemptions (see paragraphs AG4–AG9)

6. A lessee may elect not to apply the requirements in paragraphs 18A–18D and 23–52 to:

   (a) Short-term leases; and

   (b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9).

7. If a lessee elects not to apply the requirements in paragraphs 23–52 to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

8. If a lessee accounts for short-term leases applying paragraph 7, the lessee shall consider the lease to be a new lease for the purposes of this Standard if:

   (a) There is a lease modification; or

   (b) There is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term).

9. The election for short-term leases shall be made by class of underlying asset to which the right of use relates. A class of underlying asset is a grouping of underlying assets of a similar nature and use in an entity's operations. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

Identifying a Lease (see paragraphs AG10–AG34, and AG60–AG62)

10. **At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paragraphs AG10–AG32 set out guidance on the assessment of whether a contract is, or contains, a lease.**

11. A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce).

12. An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Separating Components of a Contract

13. For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 16. Paragraphs AG33–AG34 set out guidance on separating components of a contract.

Lessee

14. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

15. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximizing the use of observable information.

16. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria in paragraph 49 of IPSAS 41, *Financial Instruments*.

17. Unless the practical expedient in paragraph 16 is applied, a lessee shall account for non-lease components applying other applicable Standards.

Lessor

18. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying IPSAS 47, *Revenue.*

Assessing Whether the Transaction is at Market Terms or at Below-Market Terms

18A. At inception, an entity will determine whether the transaction is at market terms or at below-market terms.

18B. In certain circumstances, such as when an entity enters into a lease at market terms, the lease is an exchange transaction. In other circumstances, such as when an entity enters into a lease at below-market terms, the lease is a concessionary lease. In this case, the lease has a concession component. In determining whether a lease has an identifiable concession component on initial recognition, professional judgment is exercised.

18C. As concessionary leases are granted or received at below-market terms, the present value of contractual payments (consideration) on initial recognition of the lease will be lower than the present value of payments for the lease at market rates based on the current use of the underlying asset.

18D. At inception, a:

(a) Lessee assesses the substance of the concessionary lease by applying the principles in this Standard and paragraphs AG153A–AG153B of IPSAS 47; and

(b) Lessor assesses the substance of the concessionary lease by applying the principles in this Standard.

Lease Term (see paragraphs AG35–AG42)

19. An entity shall determine the lease term as the non-cancellable period of a lease, together with both:

(a) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(b) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

20. In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described in paragraphs AG38–AG41.

21. A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

(a) Is within the control of the lessee; and

(b) Affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term (as described in paragraph AG42).

22. An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:

(a) The lessee exercises an option not previously included in the entity's determination of the lease term;

(b) The lessee does not exercise an option previously included in the entity's determination of the lease term;

(c) An event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term; or

(d) An event occurs that contractually prohibits the lessee from exercising an option previously included in the entity's determination of the lease term.

Lessee

Recognition

23. **At the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.**

Measurement

Initial Measurement

Initial Measurement of the Right-of-Use Asset

24. **At the commencement date, a lessee shall measure the right-of-use asset at cost.**

25. The cost of the right-of-use asset shall comprise:

(a) The amount of the initial measurement of the lease liability, as described in paragraph 27;

(b) Any lease payments made at or before the commencement date, less any lease incentives received;

(c) Any initial direct costs incurred by the lessee; and

(d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

26. A lessee shall recognize the costs described in paragraph 25(d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies IPSAS 12, *Inventories* to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for applying this Standard or IPSAS 12 are recognized and measured applying IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*.

26A. **Where a right-of-use asset is acquired through a concessionary lease, its cost shall be measured at the present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date.**

26B. The payments for the lease at market rates based on the current use of the underlying asset shall be discounted using the interest rates identified in paragraph 27. The cost of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d).

26C. A lessee shall make a reasonable level of effort in determining the present value of payments for the lease at market rates based on the current use of the underlying asset. If payments for the lease at market rates

based on the current use of the underlying asset are not readily available for the right-of-use asset, the lessee shall measure the right-of-use asset in a concessionary lease in accordance with paragraphs 24–26.

Initial Measurement of the Lease Liability

27. **At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.**

28. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

    (a) Fixed payments (including in-substance fixed payments as described in paragraph AG43), less any lease incentives receivable;

    (b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraph 29);

    (c) Amounts expected to be payable by the lessee under residual value guarantees;

    (d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs AG38–AG41); and

    (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

29. Variable lease payments that depend on an index or a rate described in paragraph 28(b) include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

29A. **Where a lease liability is recognized through a concessionary lease, its cost shall be measured in accordance with paragraphs 27–29.**

Subsequent Measurement

Subsequent Measurement of the Right-of-Use Asset

30. **After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraphs 35 and 36. If an entity's initial measurement of a right-of-use asset included an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, or restoring the site or underlying asset under paragraph 25(d), for which it recognized a corresponding liability in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, the entity shall also apply Appendix B of IPSAS 19 in its subsequent measurement of the item.**

Historical Cost Model

31. To apply a historical cost model, a lessee shall measure the right-of-use asset at cost:

    (a) Less any accumulated depreciation and any accumulated impairment losses; and

    (b) Adjusted for any remeasurement of the lease liability specified in paragraph 37(c).

32. A lessee shall apply the depreciation requirements in IPSAS 45 in depreciating the right-of-use asset, subject to the requirements in paragraph 33.

33. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

34. A lessee shall apply IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets,* as appropriate, to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Other Measurement Models

35. If a lessee applies the fair value measurement basis in the current value model in IPSAS 16, *Investment Property* to its investment property, the lessee shall also apply that fair value measurement basis to right-of-use assets that meet the definition of investment property in IPSAS 16.

36. If right-of-use assets relate to a class of property, plant, and equipment to which the lessee applies the current value model in IPSAS 45, a lessee may elect to apply that current value model to all of the right-of-use assets that relate to that class of property, plant, and equipment.

Subsequent Measurement of the Lease Liability

37. **After the commencement date, a lessee shall measure the lease liability by:**

    (a) **Increasing the carrying amount to reflect interest on the lease liability;**

    (b) **Reducing the carrying amount to reflect the lease payments made; and**

    (c) **Remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 40–47, or to reflect revised in-substance fixed lease payments (see paragraph AG43).**

38. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described in paragraph 27, or if applicable the revised discount rate described in paragraph 42, paragraph 44 or paragraph 46(c).

39. After the commencement date, a lessee shall recognize in surplus or deficit, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:

    (a) Interest on the lease liability; and

    (b) Variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Reassessment of the Lease Liability

40. After the commencement date, a lessee shall apply paragraphs 41–44 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in surplus or deficit.

41. A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

    (a) There is a change in the lease term, as described in paragraphs 21–22. A lessee shall determine the revised lease payments on the basis of the revised lease term; or

(b) There is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs 21–22 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

42. In applying paragraph 41, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

43. A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

(a) There is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

(b) There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

44. In applying paragraph 43, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease Modifications

45. A lessee shall account for a lease modification as a separate lease if both:

(a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

46. For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

(a) Allocate the consideration in the modified contract applying paragraphs 14–17;

(b) Determine the lease term of the modified lease applying paragraphs 19–20; and

(c) Remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

47. For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:

(a) Decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognize in surplus or deficit any gain or loss relating to the partial or full termination of the lease.

(b) Making a corresponding adjustment to the right-of-use asset for all other lease modifications.

48. As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 49 is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

49. The practical expedient in paragraph 48 applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

    (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

    (b) Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022); and

    (c) There is no substantive change to other terms and conditions of the lease.

Presentation

50. A lessee shall either present in the statement of financial position, or disclose in the notes:

    (a) Right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

        (i) Include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

        (ii) Disclose which line items in the statement of financial position include those right-of-use assets.

    (b) Lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

51. The requirement in paragraph 50(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

52. In the statement of financial performance, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 102(b) of IPSAS 1, *Presentation of Financial Statements* requires to be presented separately in the statement of financial performance.

53. In the cash flow statement, a lessee shall classify:

    (a) Cash payments for the principal portion of the lease liability within financing activities;

    (b) Cash payments for the interest portion of the lease liability applying the requirements in IPSAS 2, *Cash Flow Statement* for interest paid; and

    (c) Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Disclosure

54. **The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 55–64A specify requirements on how to meet this objective.**

55. A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.

56. A lessee shall disclose the following amounts for the reporting period:

(a) Depreciation charge for right-of-use assets by class of underlying asset;

(b) Interest expense on lease liabilities;

(c) The expense relating to short-term leases accounted for applying paragraph 7. This expense need not include the expense relating to leases with a lease term of one month or less;

(d) The expense relating to leases of low-value assets accounted for applying paragraph 7. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 56(c);

(e) The expense relating to variable lease payments not included in the measurement of lease liabilities;

(f) Revenue from subleasing right-of-use assets;

(g) Total cash outflow for leases;

(h) Additions to right-of-use assets;

(i) Gains or losses arising from sale and leaseback transactions; and

(j) The carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

57. A lessee shall provide the disclosures specified in paragraph 56 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.

58. A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 7 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 56(c) relates.

59. If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IPSAS 16. In that case, a lessee is not required to provide the disclosures in paragraph 56(a), 56(f), 56(h) or 56(j) for those right-of-use assets.

60. If a lessee measures right-of-use assets at revalued amounts applying IPSAS 45, the lessee shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of-use assets.

61. A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 46 and AG12 of IPSAS 30, *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.

62. In addition to the disclosures required in paragraphs 56–61, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 54 (as described in paragraph AG49). This additional information may include, but is not limited to, information that helps users of financial statements to assess:

(a) The nature of the lessee’s leasing activities;

(b) Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:

(i) Variable lease payments (as described in paragraph AG50);

(ii) Extension options and termination options (as described in paragraph AG51);

(iii) Residual value guarantees (as described in paragraph AG52); and

(iv) Leases not yet commenced to which the lessee is committed.

(c) Restrictions or covenants imposed by leases; and

(d) Sale and leaseback transactions (as described in paragraph AG53).

63. A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 7 shall disclose that fact.

64. If a lessee applies the practical expedient in paragraph 48, the lessee shall disclose:

(a) That it has applied the practical expedient to all rent concessions that meet the conditions in paragraph 49 or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient (see paragraph 2); and

(b) The amount recognized in surplus or deficit for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in paragraph 48.

Concessionary Leases

64A. For concessionary leases received, a lessee shall disclose by class of underlying asset:

(a) The amount of the concession on initial recognition;

(b) The amount of the contractual payments for the lease when the payments for the lease at market rates based on the current use of the underlying asset are not readily available;

(c) The purpose and terms of the various types of concessionary leases, including the nature of the concession; and

(d) Significant assumptions used in estimating the present value of the lease payments at market rates based on the current use of the underlying asset.

Lessor

Classification of Leases (see paragraphs AG54–AG60)

65. **A lessor shall classify each of its leases as either an operating lease or a finance lease.**

66. **A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.**

67. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

(b) The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;

(c) The lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

(d) At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) The underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

68. Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

69. The examples and indicators in paragraphs 67–68 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.

70. Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Finance Leases (see paragraph AG62(a))

Recognition and Measurement

71. **At the commencement date, a lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.**

71A. At the commencement date, a lessor shall recognize assets under a concessionary finance lease applying the requirements in this Standard for finance leases.

Initial Measurement

72. The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

73. Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.

Initial Measurement of the Lease Payments Included in the Net Investment in the Lease

74. At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

(a) Fixed payments (including in-substance fixed payments as described in paragraph AG43), less any lease incentives payable;

(b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) Any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

(d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraph AG38); and

(e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent Measurement

75. **A lessor shall recognize finance revenue over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.**

76. A lessor aims to allocate finance revenue over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

77. A lessor shall apply the derecognition and impairment requirements in IPSAS 41 to the net investment in the lease. A lessor shall regularly review estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the revenue allocation over the lease term and recognize immediately any reduction in respect of amounts accrued.

78. A lessor that classifies an asset under a finance lease as held for sale (or includes it in a disposal group that is classified as held for sale) applying IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* shall account for the asset in accordance with that Standard.

Lease Modifications

79. A lessor shall account for a modification to a finance lease as a separate lease if both:

(a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

80. For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

(a) If the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

(i) Account for the lease modification as a new lease from the effective date of the modification; and

(ii) Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) Otherwise, the lessor shall apply the requirements of IPSAS 41.

Operating Leases (see paragraph AG62(b))

Recognition and Measurement

81. **A lessor shall recognize lease payments from operating leases as revenue on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.**

81A. A lessor shall recognize revenue under a concessionary operating lease applying the requirements in this Standard for operating leases.

82. A lessor shall recognize costs, including depreciation, incurred in earning the lease revenue as an expense.

83. A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognize those costs as an expense over the lease term on the same basis as the lease revenue.

84. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with IPSAS 31 and IPSAS 45.

85. A lessor shall apply IPSAS 21 or IPSAS 26, as appropriate, to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

Lease Modifications

86. A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Presentation

87. A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset.

Disclosure

88. **The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 89–96 specify requirements on how to meet this objective.**

89. A lessor shall disclose the following amounts for the reporting period:

(a) For finance leases:

(i) Selling surplus or deficit;

(ii) Finance revenue on the net investment in the lease; and

(iii) Revenue relating to variable lease payments not included in the measurement of the net investment in the lease.

(b) For operating leases, lease revenue, separately disclosing revenue relating to variable lease payments that do not depend on an index or a rate.

90. A lessor shall provide the disclosures specified in paragraph 89 in a tabular format, unless another format is more appropriate.

91. A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 88. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

(a) The nature of the lessor's leasing activities; and

(b) How the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance Leases

92. A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.

93. A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance revenue relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating Leases

94. For items of property, plant, and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of IPSAS 45. In applying the disclosure requirements in IPSAS 45, a lessor shall disaggregate each class of property, plant, and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by IPSAS 45 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

95. A lessor shall apply the disclosure requirements in IPSAS 16, IPSAS 21 or IPSAS 26, as appropriate, IPSAS 27 and IPSAS 31 for assets subject to operating leases.

96. A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Concessionary Finance Leases

96A. For concessionary finance leases granted, a lessor shall disclose by class of underlying asset:

(a) The carrying amount of the underlying assets transferred during the period in accordance with the relevant IPSAS;

(b) The net investment in the lease at the commencement date in accordance with this Standard;

(c) The difference between (a) and (b); and

(d) The purpose and terms of the various types of concessionary finance leases, including the nature of the concession.

Concessionary Operating Leases

96B. For concessionary operating leases granted, a lessor shall disclose by class of underlying asset:

(a) The amount of lease revenue accrued during the period;

(b) The costs associated with the underlying asset incurred on the accrual basis during the period;

(c) The difference between (a) and (b); and

(d) The purpose and terms of the various types of concessionary operating leases, including the nature of the concession.

Sale and Leaseback Transactions

97. If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 98–102.

97A. An entity shall assess whether a sale and leaseback transaction contains an embedded concession at the inception of the lease.

97B. If an entity (the seller-lessee and the buyer-lessor) identifies below-market terms embedded in the leaseback transaction as a concession, the seller-lessee shall account for the concession in accordance with IPSAS 47, and the buyer-lessor shall account for the concession in accordance with this Standard. Otherwise, the entity shall account for the below-market terms as prepayments in accordance with paragraph 100(a).

Assessing Whether the Transfer of the Asset is a Sale

98. An entity shall apply the requirements for determining when a compliance obligation is satisfied in IPSAS 47 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the Asset is a Sale

99. If the transfer of an asset by the seller-lessee satisfies the requirements of IPSAS 47 to be accounted for as a sale of the asset:

(a) The seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

(b) The buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.

100. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:

(a) Any below-market terms shall be accounted for as a prepayment of lease payments; and

(b) Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

101. The entity shall measure any potential adjustment required by paragraph 100 on the basis of the more readily determinable of:

(a) The difference between the fair value of the consideration for the sale and the fair value of the asset; and

(b) The difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

101A. After the commencement date, the seller-lessee shall apply paragraphs 30–36 to the right-of-use asset arising from the leaseback and paragraphs 37–47 to the lease liability arising from the leaseback. In applying paragraphs 37–47, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognizing in surplus or deficit any gain or loss relating to the partial or full termination of a lease as required by paragraph 47(a).

Transfer of the Asset is not a Sale

102. If the transfer of an asset by the seller-lessee does not satisfy the requirements of IPSAS 47 to be accounted for as a sale of the asset:

(a) The seller-lessee shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds. It shall account for the financial liability applying IPSAS 41.

(b) The buyer-lessor shall not recognize the transferred asset and shall recognize a financial asset equal to the transfer proceeds. It shall account for the financial asset applying IPSAS 41.

Temporary Exception Arising from Interest Rate Benchmark Reform

102A. A lessee shall apply paragraphs 102B–102C to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 72B and 72D of IPSAS 41). These paragraphs apply only to such lease modifications. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 155B of IPSAS 41.

102B. As a practical expedient, a lessee shall apply paragraph 43 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

(a) The modification is necessary as a direct consequence of interest rate benchmark reform; and

(b) The new basis for determining the lease payments is economically equivalent to the previous basis (i.e., the basis immediately preceding the modification).

102C. However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

Effective Date and Transition

Effective Date

103. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted for entities that apply IPSAS 41, at or before the**

date of initial application of this Standard. If an entity applies this Standard earlier, it shall disclose that fact.

103A. **Paragraph 78 was amended by IPSAS 44 issued in May 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.**

103B. **Paragraphs 5, 31, 32, 36, 60, 84, 94, and AG45 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

103C. **Paragraphs 35 and 113 were amended by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

103D. **Paragraphs 18, 98, 99, 102, and 120 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

103E. **Paragraphs 102A–102C and 126A–126B were added by *Improvements to IPSAS, 2023*, issued in April 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

103F. **Paragraphs 101A and 126C were added, and paragraph 106 was amended by *Improvements to IPSAS, 2023*, issued in April 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

103G **Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 117A–117F, AG32A, and AG60–AG62 were added and paragraphs 6, 54, 109, 118, and 120 were amended by *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, *Measurement*, IPSAS 47, and IPSAS 48, *Transfer Expenses* at the same time.**

103H. **Paragraph 30 was amended by *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025. An entity shall apply these amendments for annual periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, 2026, it shall disclose that fact.**

104. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

105. If a lessee elects to apply this Standard early, a lessee shall apply paragraphs 48, 49, 64, 124, 125 and 126 for annual financial statements covering periods beginning on or after February 1, 2022. Earlier application is permitted, including in financial statements not authorized for issue at January 31, 2022.

Transition

106. For the purposes of the requirements in paragraphs 103–126C, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

Definition of a Lease

107. As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

(a) To apply this Standard to contracts that were previously identified as leases applying IPSAS 13, *Leases*. The entity shall apply the transition requirements in paragraphs 109–122 to those leases.

(b) To not apply this Standard to contracts that were not previously identified as containing a lease applying IPSAS 13.

108. If an entity chooses the practical expedient in paragraph 107, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in paragraphs 10–12 only to contracts entered into (or changed) on or after the date of initial application.

Lessees

109. A lessee shall apply this Standard to its leases either:

(a) Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs 111–117F.

110. A lessee shall apply the election described in paragraph 109 consistently to all of its leases in which it is a lessee.

111. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall not restate comparative information. Instead, the lessee shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surpluses/(deficits) (or other component of net assets/equity, as appropriate) at the date of initial application.

Leases Previously Classified as Operating Leases

112. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall:

(a) Recognize a lease liability at the date of initial application for leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(b) Recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IPSAS 13. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) Its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or

(ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

(c) Apply IPSAS 21 or IPSAS 26, as appropriate, to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph 114(b).

113. Notwithstanding the requirements in paragraph 112, for leases previously classified as operating leases applying IPSAS 13, a lessee:

(a) Is not required to make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9) that will be accounted for applying paragraph 7. The lessee shall account for those leases applying this Standard from the date of initial application.

(b) Is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

(c) Shall measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases applying IPSAS 13 and that will be accounted for as investment property using the fair value measurement basis in the current value model in IPSAS 16 from the date of initial application. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

114. A lessee may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph 109(b) to leases previously classified as operating leases applying IPSAS 13. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

(a) A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

(b) A lessee may rely on its assessment of whether leases are onerous applying IPSAS 19 immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognized in the statement of financial position immediately before the date of initial application.

(c) A lessee may elect not to apply the requirements in paragraph 112 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall:

(i) Account for those leases in the same way as short-term leases as described in paragraph 7; and

(ii) Include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

(d) A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

(e) A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Leases Previously Classified as Finance Leases

115. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for leases that were classified as finance leases applying IPSAS 13, the carrying amount of the right-of-use asset and the lease liability at

the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IPSAS 13. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

116. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall disclose information about initial application required by paragraph 33 of IPSAS 3, except for the information specified in paragraph 33(f) of IPSAS 3. Instead of the information specified in paragraph 33(f) of IPSAS 3, the lessee shall disclose:

(a) The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application; and

(b) An explanation of any difference between:

(i) Operating lease commitments disclosed applying IPSAS 13 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph 112(a); and

(ii) Lease liabilities recognized in the statement of financial position at the date of initial application.

117. If a lessee uses one or more of the specified practical expedients in paragraph 114, it shall disclose that fact.

Concessionary Leases

Leases Previously Classified as Operating Leases

117A. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall:

(a) Recognize a lease liability at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(b) Recognize a right-of-use asset at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that right-of-use asset at the present value of payments for the remaining lease term at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.

117B. Notwithstanding the requirements in paragraph 117A, for concessionary leases previously classified as operating leases applying IPSAS 13, a lessee is not required to make any adjustments on transition for concessionary leases previously accounted for as investment property using the fair value model in IPSAS 16, *Investment Property*. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

117C. A lessee may use one or more of the practical expedients in paragraphs 114(a), 114(b), 114(d), and 114(e) when applying this Standard retrospectively in accordance with paragraph 109(b) to concessionary leases previously classified as operating leases applying IPSAS 13.

117D. A lessee may elect not to apply the requirements in paragraph 117A to concessionary leases for which the lease term ends within 12 months of the date of initial application. In this case, the lessee shall:

(a) Account for those leases in the same way as short-term leases as described in paragraph 7; and

(b) Include the cost associated with those concessionary leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

Leases Previously Classified as Finance Leases

117E. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for concessionary leases that were classified as finance leases applying IPSAS 13, at the date of initial application the lessee shall:

(a) Measure the lease liability at the carrying amount of the lease liability immediately before that date measured applying IPSAS 13; and

(b) Recognize a right-of-use asset and measure in accordance with paragraph 117A(b).

(c) For those concessionary leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

117F. If a lessee elects to apply this Standard in accordance with paragraph 109(b) for concessionary leases, the lessee shall disclose information according to paragraphs 116 and 117, as appropriate.

Lessors

118. Except as described in paragraph 119, a lessor is not required to make any adjustments on transition for leases, including concessionary leases, in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

119. An intermediate lessor shall:

(a) Reassess subleases that were classified as operating leases applying IPSAS 13 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or a finance lease applying this Standard. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date.

(b) For subleases that were classified as operating leases applying IPSAS 13 but finance leases applying this Standard, account for the sublease as a new finance lease entered into at the date of initial application.

Sale and Leaseback Transactions Before the Date of Initial Application

120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether:

(a) The transfer of the underlying asset satisfies the requirements in IPSAS 47 to be accounted for as a sale; and

(b) The leaseback satisfies the requirements in this Standard to be accounted for as a concessionary leaseback.

121. If a sale and leaseback transaction was accounted for as a sale and a finance lease applying IPSAS 13, the seller-lessee shall:

(a) Account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and

(b) Continue to amortize any gain on sale over the lease term.

122. If a sale and leaseback transaction was accounted for as a sale and operating lease applying IPSAS 13, the seller-lessee shall:

(a) Account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and

(b) Adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognized in the statement of financial position immediately before the date of initial application.

Amounts Previously Recognized in Respect of Public Sector Combinations

123. If a lessee previously recognized an asset or a liability applying IPSAS 40, *Public Sector Combinations* relating to favorable or unfavorable terms of an operating lease acquired as part of a public sector combination, the lessee shall derecognize that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount at the date of initial application.

COVID-19-Related Rent Concessions for Lessees

124. A lessee shall apply paragraphs 48, 49, and 64 retrospectively, recognizing the cumulative effect of initially applying that amendment as an adjustment to the opening balance of accumulated surpluses/(deficits) (or other component of net assets/equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

125. In the reporting period in which a lessee first applies paragraph 48, 49, and 64, a lessee is not required to disclose the information required by paragraph 33(f) of IPSAS 3.

126. Applying paragraph 2 of this Standard, a lessee shall apply the practical expedient in paragraph 48 consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying the COVID-19-Related Rent Concessions requirements.

Interest Rate Benchmark Reform—Phase 2

126A. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, except as specified in paragraph 126B.

126B. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening net assets/equity (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Lease Liability in a Sale and Leaseback

126C. A seller-lessee shall apply paragraphs 101A and 106 (see paragraph 103F) retrospectively in accordance with IPSAS 3 to sale and leaseback transactions entered into after the date of initial application.

Withdrawal and Replacement of IPSAS 13 (December 2006)

127. This Standard supersedes IPSAS 13 issued in 2006. IPSAS 13 remains applicable until this Standard is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 43.

Portfolio Application

AG1. This Standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Combination of Contracts

AG2. In applying this Standard, an entity shall combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

(a) The contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together;

(b) The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) The rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component as described in paragraph AG33.

Definitions (see paragraph 5)

AG3. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a “contract” for the purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- The remedy for non-performance is enforceable by law.

Recognition Exemption: Leases for Which the Underlying Asset is of Low Value (paragraphs 6–9)

AG4. Except as specified in paragraph AG8, this Standard permits a lessee to apply paragraph 7 to account for leases for which the underlying asset is of low value. A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased.

AG5. The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment in paragraph 7 regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach similar conclusions about whether a particular underlying asset is of low value.

AG6. An underlying asset can be of low value only if:

(a) The lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and

(b) The underlying asset is not highly dependent on, or highly interrelated with, other assets.

AG7. A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value. For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.

AG8. If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

AG9. Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

Identifying a Lease (paragraphs 10–12)

AG10. To assess whether a contract conveys the right to control the use of an identified asset (see paragraphs AG14–AG21) for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

(a) The right to obtain substantially all of the economic benefits or service potential from use of the identified asset (as described in paragraphs AG22–AG24); and

(b) The right to direct the use of the identified asset (as described in paragraphs AG25–AG31).

AG11. If the customer has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

AG12. A contract to receive goods or services may be entered into by a joint arrangement, or on behalf of a joint arrangement, as defined in IPSAS 37, *Joint Arrangements*. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use.

AG13. An entity shall assess whether a contract contains a lease for each potential separate lease component. Refer to paragraph AG33 for guidance on separate lease components.

Identified Asset

AG14. An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive Substitution Rights

AG15. Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use. A supplier's right to substitute an asset is substantive only if both of the following conditions exist:

(a) The supplier has the practical ability to substitute alternative assets throughout the period of use (for example, the customer cannot prevent the supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and

(b) The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset).

AG16. If the supplier has a right or an obligation to substitute the asset only on or after either a particular date or the occurrence of a specified event, the supplier's substitution right is not substantive because the supplier does not have the practical ability to substitute alternative assets throughout the period of use.

AG17. An entity's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract and shall exclude consideration of future events that, at inception of the contract, are not considered likely to occur. Examples of future events that, at inception of the contract, would not be considered likely to occur and, thus, should be excluded from the evaluation include:

(a) An agreement by a future customer to pay an above market rate for use of the asset;

(b) The introduction of new technology that is not substantially developed at inception of the contract;

(c) A substantial difference between the customer's use of the asset, or the performance of the asset, and the use or performance considered likely at inception of the contract; and

(d) A substantial difference between the market price of the asset during the period of use, and the market price considered likely at inception of the contract.

AG18. If the asset is located at the customer's premises or elsewhere, the costs associated with substitution are generally higher than when located at the supplier's premises and, therefore, are more likely to exceed the benefits associated with substituting the asset.

AG19. The supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset.

AG20. If the customer cannot readily determine whether the supplier has a substantive substitution right, the customer shall presume that any substitution right is not substantive.

Portions of Assets

AG21. A capacity portion of an asset is an identified asset if it is physically distinct (for example, a floor of a building). A capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits or service potential from use of the asset.

Right to Obtain Economic Benefits or Service Potential from Use

AG22. To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits or service potential from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits or service potential from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits or service potential from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits or service potential from using the asset that could be realized from a commercial transaction with a third party.

AG23. When assessing the right to obtain substantially all of the economic benefits or service potential from use of an asset, an entity shall consider the economic benefits or service potential that result from use of the asset within the defined scope of a customer's right to use the asset (see paragraph AG31). For example:

(a) If a contract limits the use of a motor vehicle to only one particular territory during the period of use, an entity shall consider only the economic benefits or service potential from use of the motor vehicle within that territory, and not beyond.

(b) If a contract specifies that a customer can drive a motor vehicle only up to a particular number of miles during the period of use, an entity shall consider only the economic benefits or service potential from use of the motor vehicle for the permitted mileage, and not beyond.

AG24. If a contract requires a customer to pay the supplier or another party a portion of the cash flows derived from use of an asset as consideration, those cash flows paid as consideration shall be considered to be part of the economic benefits that the customer obtains from use of the asset. For example, if the customer is required to pay the supplier a percentage of sales from use of space as consideration for that use, that requirement does not prevent the customer from having the right to obtain substantially all of the economic benefits from use of the space. This is because the cash flows arising from those sales are considered to be economic benefits that the customer obtains from use of the space, a portion of which it then pays to the supplier as consideration for the right to use that space.

Right to Direct the Use

AG25. A customer has the right to direct the use of an identified asset throughout the period of use only if either:

(a) The customer has the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs AG26–AG31); or

(b) The relevant decisions about how and for what purpose the asset is used are predetermined and:

(i) The customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or

(ii) The customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

How and For What Purpose the Asset is Used

AG26. A customer has the right to direct how and for what purpose the asset is used if, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout the period of use. In making this assessment, an entity considers the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use. Decision-making rights are relevant when they affect the economic benefits or service potential to be derived from use. The decision-making rights that are most relevant are likely to be different for different contracts, depending on the nature of the asset and the terms and conditions of the contract.

AG27. Examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used, within the defined scope of the customer's right of use, include:

(a) Rights to change the type of output that is produced by the asset (for example, to decide whether to use a shipping container to transport goods or for storage, or to decide upon the mix of products sold from a tourism outlet);

(b) Rights to change when the output is produced (for example, to decide when an item of machinery or a power plant will be used);

(c) Rights to change where the output is produced (for example, to decide upon the destination of a truck or a ship, or to decide where an item of equipment is used); and

(d) Rights to change whether the output is produced, and the quantity of that output (for example, to decide whether to produce energy from a power plant and how much energy to produce from that power plant).

AG28. Examples of decision-making rights that do not grant the right to change how and for what purpose the asset is used include rights that are limited to operating or maintaining the asset. Such rights can be held by the customer or the supplier. Although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and are often dependent on the decisions about how and for what purpose the asset is used. However, rights to operate an asset may grant the customer the right to direct the use of the asset if the relevant decisions about how and for what purpose the asset is used are predetermined (see paragraph AG25(b)(i)).

Decisions Determined During and Before the Period of Use

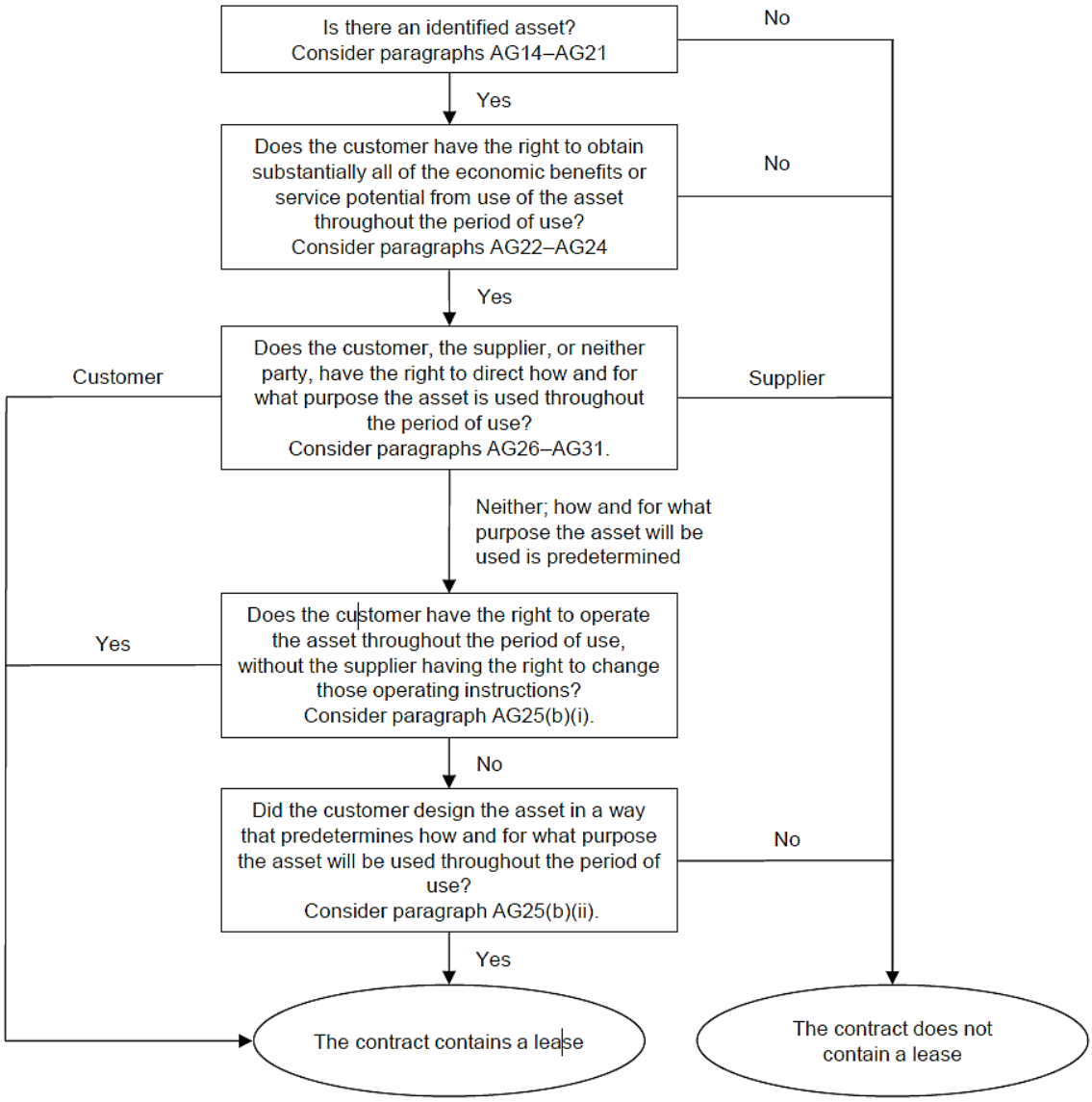
AG29. The relevant decisions about how and for what purpose the asset is used can be predetermined in a number of ways. For example, the relevant decisions can be predetermined by the design of the asset or by contractual restrictions on the use of the asset.

AG30. In assessing whether a customer has the right to direct the use of an asset, an entity shall consider only rights to make decisions about the use of the asset during the period of use, unless the customer designed the asset (or specific aspects of the asset) as described in paragraph AG25(b)(ii). Consequently, unless the conditions in paragraph AG25(b)(ii) exist, an entity shall not consider decisions that are predetermined before the period of use. For example, if a customer is able only to specify the output of an asset before the period of use, the customer does not have the right to direct the use of that asset. The ability to specify the output in a contract before the period of use, without any other decision-making rights relating to the use of the asset, gives a customer the same rights as any customer that purchases goods or services.

Protective Rights

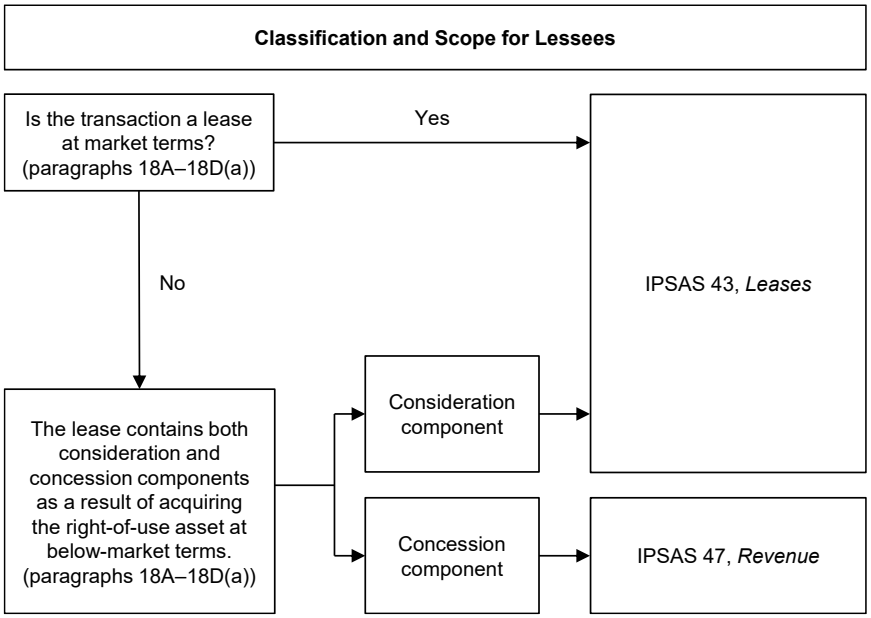
AG31. A contract may include terms and conditions designed to protect the supplier’s interest in the asset or other assets, to protect its personnel, or to ensure the supplier’s compliance with laws or regulations. These are examples of protective rights. For example, a contract may (i) specify the maximum amount of use of an asset or limit where or when the customer can use the asset, (ii) require a customer to follow particular operating practices, or (iii) require a customer to inform the supplier of changes in how an asset will be used. Protective rights typically define the scope of the customer’s right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset.

AG32. The following flowchart may assist entities in making the assessment of whether a contract is, or contains, a lease.



Classification of Leases at Market Terms and at Below-Market Terms and Scoping for Lessees (paragraphs 18A–18D)

AG32A. The diagram below establishes the classification and scope of leases for lessees.



Separating Components of a Contract (paragraphs 13–18)

AG33. The right to use an underlying asset is a separate lease component if both:

(a) The lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee. Readily available resources are goods or services that are sold or leased separately (by the lessor or other suppliers) or resources that the lessee has already obtained (from the lessor or from other transactions or events); and

(b) The underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract. For example, the fact that a lessee could decide not to lease the underlying asset without significantly affecting its rights to use other underlying assets in the contract might indicate that the underlying asset is not highly dependent on, or highly interrelated with, those other underlying assets.

AG34. A contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks, or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

Lease Term (paragraphs 19–22)

AG35. In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

AG36. If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

AG37. The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

AG38. At the commencement date, an entity assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Examples of factors to consider include, but are not limited to:

(a) Contractual terms and conditions for the optional periods compared with market rates, such as:

(i) The amount of payments for the lease in any optional period;

(ii) The amount of any variable payments for the lease or other contingent payments, such as payments resulting from termination penalties and residual value guarantees; and

(iii) The terms and conditions of any options that are exercisable after initial optional periods (for example, a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).

(b) Significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(c) Costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location;

(d) The importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialized asset, the location of the underlying asset and the availability of suitable alternatives; and

(e) Conditionality associated with exercising the option (i.e., when the option can be exercised only if one or more conditions are met), and the likelihood that those conditions will exist.

AG39. An option to extend or terminate a lease may be combined with one or more other contractual features (for example, a residual value guarantee) such that the lessee guarantees the lessor a minimum or fixed cash return that is substantially the same regardless of whether the option is exercised. In such cases, and notwithstanding the guidance on in-substance fixed payments in paragraph AG43, an entity shall assume that the lessee is reasonably certain to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

AG40. The shorter the non-cancellable period of a lease, the more likely a lessee is to exercise an option to extend the lease or not to exercise an option to terminate the lease. This is because the costs associated with obtaining a replacement asset are likely to be proportionately higher the shorter the non-cancellable period.

AG41. A lessee's past practice regarding the period over which it has typically used particular types of assets (whether leased or owned), and its economic reasons for doing so, may provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option. For example, if a lessee has typically used particular types of assets for a particular period of time or if the lessee has a practice of frequently exercising options on leases of particular types of underlying assets, the lessee shall

consider the economic reasons for that past practice in assessing whether it is reasonably certain to exercise an option on leases of those assets.

AG42. Paragraph 21 specifies that, after the commencement date, a lessee reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. Examples of significant events or changes in circumstances include:

(a) Significant leasehold improvements not anticipated at the commencement date that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(b) A significant modification to, or customization of, the underlying asset that was not anticipated at the commencement date;

(c) The inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term; and

(d) A decision of the lessee that is directly relevant to exercising, or not exercising, an option (for example, a decision to extend the lease of a complementary asset, to dispose of an alternative asset or to dispose of an operation within which the right-of-use asset is employed).

In-Substance Fixed Lease Payments (paragraphs 28(a), 37(c) and 74(a))

AG43. Lease payments include any in-substance fixed lease payments. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if:

(a) Payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance. Examples of those types of payments include:

(i) Payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or

(ii) Payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved.

(b) There is more than one set of payments that a lessee could make, but only one of those sets of payments is realistic. In this case, an entity shall consider the realistic set of payments to be lease payments.

(c) There is more than one realistic set of payments that a lessee could make, but it must make at least one of those sets of payments. In this case, an entity shall consider the set of payments that aggregates to the lowest amount (on a discounted basis) to be lease payments.

Lessee Involvement with the Underlying Asset before the Commencement Date

Costs of the Lessee relating to the Construction or Design of the Underlying Asset

AG44. An entity may negotiate a lease before the underlying asset is available for use by the lessee. For some leases, the underlying asset may need to be constructed or redesigned for use by the lessee. Depending on

the terms and conditions of the contract, a lessee may be required to make payments relating to the construction or design of the asset.

AG45. If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as IPSAS 45. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

Legal Title to the Underlying Asset

AG46. A lessee may obtain legal title to an underlying asset before that legal title is transferred to the lessor and the asset is leased to the lessee. Obtaining legal title does not in itself determine how to account for the transaction.

AG47. If the lessee controls (or obtains control of) the underlying asset before that asset is transferred to the lessor, the transaction is a sale and leaseback transaction that is accounted for applying paragraphs 97–102.

AG48. However, if the lessee does not obtain control of the underlying asset before the asset is transferred to the lessor, the transaction is not a sale and leaseback transaction. For example, this may be the case if a producer, a lessor and a lessee negotiate a transaction for the purchase of an asset from the producer by the lessor, which is in turn leased to the lessee. The lessee may obtain legal title to the underlying asset before legal title transfers to the lessor. In this case, if the lessee obtains legal title to the underlying asset but does not obtain control of the asset before it is transferred to the lessor, the transaction is not accounted for as a sale and leaseback transaction, but as a lease.

Lessee Disclosures (paragraph 62)

AG49. In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 54, a lessee shall consider:

(a) Whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 62 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:

(i) The flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favorable terms and conditions.

(ii) Restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.

(iii) Sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.

(iv) Exposure to other risks arising from leases.

(v) Deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee’s lease portfolio.

(b) Whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.

AG50. Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for using variable lease payments and the prevalence of those payments;

(b) The relative magnitude of variable lease payments to fixed payments;

(c) Key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and

(d) Other operational and financial effects of variable lease payments.

AG51. Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for using extension options or termination options and the prevalence of those options;

(b) The relative magnitude of optional lease payments to lease payments;

(c) The prevalence of the exercise of options that were not included in the measurement of lease liabilities; and

(d) Other operational and financial effects of those options.

AG52. Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;

(b) The magnitude of a lessee's exposure to residual value risk;

(c) The nature of underlying assets for which those guarantees are provided; and

(d) Other operational and financial effects of those guarantees.

AG53. Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

(a) The lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;

(b) Key terms and conditions of individual sale and leaseback transactions;

(c) Payments not included in the measurement of lease liabilities; and

(d) The cash flow effect of sale and leaseback transactions in the reporting period.

Lessor Lease Classification (paragraphs 65–70)

AG54. The classification of leases for lessors in this Standard is based on the extent to which the lease transfers the risks and rewards incidental to ownership of an underlying asset. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the underlying asset's economic life and of gain from appreciation in value or realization of a residual value.

AG55. A lease contract may include terms and conditions to adjust the lease payments for particular changes that occur between the inception date and the commencement date (such as a change in the lessor's cost of the underlying asset or a change in the lessor's cost of financing the lease). In that case, for the purposes of classifying the lease, the effect of any such changes shall be deemed to have taken place at the inception date.

AG56. When a lease includes both land and buildings elements, a lessor shall assess the classification of each element as a finance lease or an operating lease separately applying paragraphs 66–70 and AG54–AG55. In determining whether the land element is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.

AG57. Whenever necessary in order to classify and account for a lease of land and buildings, a lessor shall allocate lease payments (including any lump-sum upfront payments) between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception date. If the lease payments cannot be allocated reliably[1] between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

AG58. For a lease of land and buildings in which the amount for the land element is immaterial to the lease, a lessor may treat the land and buildings as a single unit for the purpose of lease classification and classify it as a finance lease or an operating lease applying paragraphs 66–70 and AG54–AG55. In such a case, a lessor shall regard the economic life of the buildings as the economic life of the entire underlying asset.

Sublease Classification

AG59. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

(a) If the head lease is a short-term lease that the entity, as a lessee, has accounted for applying paragraph 6, the sublease shall be classified as an operating lease.

(b) Otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

Concessionary Leases (see paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, and 81A)

AG60. Concessionary leases are granted to or received by a lessee at below-market terms. Examples of concessionary leases include leases granted to or received by international organizations or other public sector entities with public policy objectives at below-market terms at inception.

AG61. If a lessee receiving the right-of-use asset has determined that the transaction has a concession component, the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments is accounted for in accordance with paragraphs AG153A–AG153B of IPSAS 47 at the commencement date.

AG62. If a lessor granting a concessionary lease has determined that the transaction has a concession component, at the commencement date:

(a) In a concessionary finance lease, the lessor:

(i) Derecognizes the underlying asset in accordance with the applicable IPSAS;

(ii) Recognizes the net investment in the lease in accordance with this Standard; and

(iii) Does not recognize the foregone revenue obtained by the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the newly recognized net investment in the lease.

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

(b) In a concessionary operating lease, the lessor:

(i) Recognizes lease revenue in accordance with this Standard;

(ii) Does not recognize the foregone revenue obtained by the difference between the contractual payments and the payments for the lease at market rates based on the current use of the underlying asset; and

(iii) Shall assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Illustrative Examples are provided in paragraph IE296A of the Illustrative Examples accompanying IPSAS 47 as well as in paragraphs IE5, IE10A, and IE11 of the Illustrative Examples accompanying this Standard.

Appendix B

Amendments to Other IPSAS

[deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43.

Introduction

BC1. IPSAS 13, *Leases*, was drawn primarily from International Accounting Standard (IAS) 17, *Leases*, (revised 2003) issued by the International Accounting Standards Board (IASB). In January 2016, the IASB issued International Financial Reporting Standard (IFRS) 16, *Leases*. IFRS 16 replaced IAS 17 and a number of related interpretations[1].

BC2. In June 2016, the IPSASB approved a project brief to develop revised requirements for accounting for leases. This brief acknowledged, and reconfirmed, the IPSASB's conclusion in IPSAS 13 that the economics of a lease transaction are the same in both the public and private sectors, resulting in the decision that this should be an IFRS 16 alignment project.

BC3. The IPSASB's policy document, *Process for Reviewing and Modifying IASB Documents*, sets out the process the IPSASB follows when developing an aligned Standard. The first step of the process is to consider whether there are any public sector issues that warrant a departure from an IASB document.

BC4. In determining whether public sector issues warrant a departure from an IASB document, the IPSASB considers the following:

(a) Whether applying the requirements of the IASB document would mean that the objectives of public sector financial reporting would not be adequately met;

(b) Whether applying the requirements of the IASB document would mean that the qualitative characteristics of public sector financial reporting would not be adequately met; and

(c) Whether applying the requirements of the IASB document would require undue cost or effort.

BC5. The *Process for Reviewing and Modifying IASB Documents* requires the IPSASB to make its decisions in the context of the following:

(a) Consistency with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*);

(b) Internal consistency with existing IPSAS; and

(c) Consistency with the statistical bases.

Background

Development of ED 64, Leases

Lessee Accounting

BC6. IFRS 16 introduced a new lease accounting model for lessees—the right-of-use model. The right-of-use model is based on the foundational principle that leases are financings of the right to use an underlying asset, and results in lessee accounting as follows[2]:

(a) Recognizes a 'right-of-use asset'; and

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[1] International Financial Reporting Interpretations Committee Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease* and Standing Interpretations Committee Interpretations SIC-15, *Operating Leases—Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

[2] Except for short-term leases and leases for which the underlying asset is of low value, as described in IFRS 16.5–8.

(b) Recognizes a lease liability related to the future lease payments.

BC7. When developing ED 64, *Leases*, the IPSASB had considered whether there were any public sector issues that warranted a departure from the right-of-use model for lessee accounting in IFRS 16. In so doing, the IPSASB came to the following conclusions:

(a) The right-of-use asset satisfies the definition of, and recognition criteria for, an asset in the IPSASB's *Conceptual Framework*.

(b) The right-of-use asset is recognized when the lessee controls the asset, which is consistent with the IPSASB's *Conceptual Framework*.

(c) The information reported under the single right-of-use lessee accounting model specified in IFRS 16 would provide the most useful information to the broadest range of users of financial statements.

(d) The right-of-use model prevents accounting arbitrage and information asymmetry. It improves comparability between public sector entities that lease assets and public sector entities that purchase assets.

(e) The IPSASB acknowledged that there would be costs for lessees associated with implementing the right-of-use model in the public sector. However, the IPSASB considered that the benefits outweigh the costs, particularly if the IPSASB also adopted the exemptions in IFRS 16.

BC8. Consequently, the IPSASB had agreed that there were no public sector issues that warranted a departure from the right-of-use model for lessee accounting in IFRS 16. The IPSASB therefore had decided to develop ED 64 with lessee accounting requirements that were aligned with the requirements in IFRS 16.

Lessor Accounting

BC9. IFRS 16 retained the 'risks and rewards incidental to ownership' model applied in IAS 17 (and IPSAS 13). The IPSASB had considered whether there were any public sector issues that warranted a departure from the lessor accounting requirements in IFRS 16. In developing ED 64, the IPSASB had come to the view that the 'risks and rewards incidental to ownership' model:

(a) Is not based on control and would not be consistent with the IPSASB's *Conceptual Framework*.

(b) Does not distinguish between the right-of-use asset and the underlying asset. The IPSASB considered these to be different economic phenomena which should both be accounted for.

(c) If applied for lessor accounting, while a control-based model was applied for lessee accounting, would:

(i) Be inconsistent with IPSAS 17, *Property, Plant, and Equipment* and IPSAS 32, *Service Concession Arrangements: Grantor*, which are based on control; and

(ii) Raise consolidation issues and impair understandability and the decision usefulness of information where the lessor and the lessee are part of the same economic entity. For example, if the lessor classifies the lease as a finance lease, the underlying asset is not recognized by either party, and separate records will need to be maintained to report the underlying asset in the consolidated financial statements. In this context, the IPSASB had formed the view that a lessor would not be expected to derecognize a leased asset because the lessor has only transferred the right to use an underlying asset, not the underlying asset itself.

BC10. As a consequence, the IPSASB had decided to develop a right-of-use model for lessor accounting specifically designed for public sector financial reporting.

IPSASB Consultative Advisory Group

BC11. The IPSASB Consultative Advisory Group (CAG) had been consulted during the development of ED 64, in particular on the IPSASB's decision to depart from IFRS 16 in lessor accounting.

BC12. At its December 2016 meeting, the CAG advised the IPSASB of its views that:

(a) Symmetry may not be needed in lease accounting;

(b) The treatment of the underlying asset is an important issue in the public sector, and it needs to be recognized in the financial statements; and

(c) An approach drawn from IFRS 16 would result in the underlying asset not appearing in the statement of financial position of either the lessor or lessee in some cases and expressed a view that this would give rise to a public interest concern.

BC13. The CAG also advised the IPSASB that if it wants to pursue proposals other than IFRS 16 lessor accounting it may take a long time to develop an appropriate lessor accounting model given the experiences and challenges the IASB faced in attempting to do so.

ED 64, Leases

BC14. In January 2018, the IPSASB published ED 64, *Leases* proposing a single right-of-use model for lease accounting for lessees and lessors under which:

(a) The lessee would recognize a 'right-of-use asset' and a lease liability related to the future lease payments at the commencement of a lease; and

(b) The lessor would recognize a lease receivable and a lease liability (unearned revenue) at the commencement of a lease, while continuing to recognize and measure the underlying asset according to the applicable Standards.

BC15. ED 64 also proposed specific public sector accounting requirements on leases at below-market terms, also known as concessionary leases. The proposal was that such leases be measured at fair value leading to recognition of the implicit subsidy (the difference between the market value and the lease contract value) in both lessees' and lessors' financial statements.

Feedback from Constituents on ED 64, *Leases*

BC16. The IPSASB received 39 comment letters in response to ED 64. This feedback indicated that:

(a) The vast majority of respondents agreed with the right-of-use model for lessee accounting. Many respondents who agreed with the proposals noted that their thinking was generally consistent with IPSASB's reasoning set out in the Basis for Conclusions to ED 64.

(b) Respondents that disagreed or partially agreed with the right-of-use model for lessees were of the view that:

(i) The proposed model was too complicated, costly and focused on the statement of financial position;

(ii) The right-of-use model for lessee accounting by itself was inadequate for public sector reporting because the IPSASB did not consider sufficiently the allocations of rights, which pertain to physical and intangible assets, which are prevalent in the public sector;

(iii) An exemption should be provided for leases between public sector entities; and

(iv) Guidance should be provided on the recognition and measurement of the transferred asset at the end of the lease term.[3]

(c) Respondents were almost equally divided over whether a departure from IFRS 16 lessor accounting was justified, with a small majority supporting departure. Generally, those in support of IFRS 16 lessor accounting, were of the view that the IPSASB had not made a strong enough case to depart from IFRS 16. On the other hand, those supporting departure from IFRS 16 lessor accounting on conceptual grounds agreed with the IPSASB's reasoning set out in the Basis for Conclusions, but did not agree consistently with the proposals for lessor accounting set out in ED 64.

(d) Respondents that did not agree with ED 64 proposals for lessor accounting did not have a unified view on the approach that should be adopted for lessor accounting and proposed a number of alternatives. The lack of consensus among respondents on the economics of, and accounting for, leases by lessors highlighted significant differences across jurisdictions.

(e) Respondents were of the view that the IPSASB needed to address public sector specific issues related to leases (for example, concessionary leases, access rights, and other types of arrangements in the public sector, etc.). However, respondents provided diverse views on how to address these public sector specific issues.

IPSASB's Response to Constituents' Feedback on ED 64, Leases

IPSASB Consultative Advisory Group

BC17. After considering constituents' feedback on ED 64, at the December 2018 CAG meeting the IPSASB sought CAG's views on actions to move the Leases project forward in light of the responses to ED 64.

BC18. The CAG advised the IPSASB that at this stage of the Leases project it would be in the public interest to:

(a) Slow down the Leases project by extending its timeline to better understand the issues raised by respondents to ED 64;

(b) Further consider alignment with IFRS 16 regarding lessor accounting; and

(c) Focus on public sector differences related to lease transactions.

Other IPSASB initiatives

BC19. The IPSASB decided to:

(a) Create a Task Force in December 2018, with members from several jurisdictions, including preparers, users, auditors and standard-setters, to undertake an in-depth review of all constituent comments; and

(b) Invite guest speakers to the June and September 2019 IPSASB meetings to provide their views on lease accounting and the implementation challenges of applying IFRS 16 in both the private and public sectors. Speakers included national standard-setters, auditors, preparers and the statistical accounting community.

BC20. The guest speakers highlighted that the new lessee accounting model in IFRS 16 was raising significant implementation issues in both the private and public sectors. The IPSASB considered that leases are a very common transaction in the public sector, and that any changes on how to account for leases would have similar or greater implementation cost and challenges for the public sector. IFRS 16 also presents significant conceptual and practical challenges for the statistical community.

[3] See paragraph BC27.

New Approach to the Leases Project

BC21. In the light of these presentations and the responses to ED 64, in March 2020 the IPSASB decided to revisit its overall approach to the Leases project, and to adopt a phased approach as follows:

(a) Phase One, dealing with lease accounting model(s) for both lessees and lessors based on the same definition of a lease as in IFRS 16; and

(b) Phase Two, dealing with public sector specific issues, such as concessionary leases, access rights, and other types of arrangements in the public sector. The IPSASB also decided to issue a 'Request for Information' to better inform this Phase Two work.

BC22. In determining how to approach the first phase of the project, the IPSASB discussed whether it should consider a variant to IFRS 16 lessor accounting that would require all lessors to account for leases as operating leases only. The aim of this variant would be to deal with the concern raised by respondents regarding the non-recognition of the underlying asset by both the lessor and the lessee if the lessor classifies the lease as a finance lease.

BC23. The IPSASB decided not to proceed with this IFRS 16 variant for lessors because:

(a) Requiring operating lease accounting for all lessor transactions would remove the judgement by preparers that is inherent to the risks and rewards model and would transform it into a rules-based model without sufficient economic rationale;

(b) It would create consolidation issues where both lessor and lessee are part of the same economic entity applying IPSAS; and

(c) It would create mixed group[4] issues where some commercial public sector entities apply IFRS Standards but are controlled by public sector entities that apply IPSAS. Different requirements are costly to those applying IPSAS when there is no public sector specific reason to develop different accounting treatments.

Three Strategic Options for the Leases Project

BC24. After making this decision, the IPSASB discussed three strategic options:

(a) Option 1 – Retain IPSAS 13, which would pause the project;

(b) Option 2 – Proceed with the right-of-use model for lessees and risks and rewards model for lessors in developing a Standard aligned with IFRS 16; or

(c) Option 3 – Proceed with the right-of-use model for both lessees and lessors and develop a Standard based on ED 64.

BC25. In order to make this strategic decision on the overall future direction of the project, the IPSASB considered the following six factors alongside the public interest:

(a) Public Financial Management (PFM) [5] benefits;

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[4] Mixed groups are groups that encompass public sector entities that apply IPSAS and commercial public sector entities that apply IFRS Standards.

[5] Defined in *The CIPFA FM Model, Statements of Good Practice* as "Public Financial Management is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective achievement of public service outcomes." This definition is aligned with the principles in the *IFAC/CIPFA International Framework: Good Governance in the Public Sector* (see https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/international-framework-good-governance-public-sector)

(b) Implementation costs and challenges—training, information technology changes, change of processes, accounting changes (first-time implementation of new Standard), and on-going accounting (maintenance);

(c) Government Finance Statistics (GFS) alignment—at the conceptual level, when comparing IPSAS and GFS accounting frameworks, and at the practical level, when compiling GFS accounts using information from accrual-based IPSAS accounts;

(d) IPSASB's *Conceptual Framework*—public sector financial reporting objectives of accountability and decision-making, and whether transactions and events meet the definition of elements[6];

(e) IFRS Alignment—alignment with IFRS 16; and

(f) Feasibility of the Leases project—timeliness, and impact on project management, IPSASB's resource allocation, and IPSASB's Work Program.

BC26. The IPSASB first considered whether to pause with the leases project by retaining IPSAS 13 (Option 1). The IPSASB was of the view that retaining IPSAS 13 would be the least favorable option in terms of PFM benefits, consistency with the IPSASB's *Conceptual Framework* and IFRS Alignment because it would:

(a) Continue to allow off-balance sheet financing of operating leases for lessees;

(b) Create mixed group issues where some controlled entities are required to apply IFRS Standards;

(c) Result in some cases the underlying asset not being recognized by either the lessee or the lessor, or being recognized by both;

(d) Be inconsistent with the control-based approach to asset recognition and derecognition in the IPSASB's *Conceptual Framework*; and

(e) Retain an accounting model that differs from that in IFRS 16 for both lessees and, to a lesser extent, lessors[7].

BC27. During its discussion of Option 1, the IPSASB also considered the comments made by respondents that disagreed or partially agreed with the right-of-use model for lessees (see paragraphs BC16(b)(i)–BC16(b)(ii)). The IPSASB concluded that the respondents' concerns were not public sector specific and, therefore, did not warrant a departure from IFRS 16. The IPSASB also concluded that the benefits of the right-of-use model for lessees would outweigh the costs of the accounting changes as there would be a number of simplifications, such as:

(a) Providing a single accounting model for lessees which would remove the different lease classifications in IPSAS 13;

(b) Permitting a lessee not to recognize assets and liabilities, for short-term leases and leases of low-value assets;

(c) Permitting application of the Standard by entities on a portfolio basis for leases with similar characteristics;

(d) Simplifying the measurement requirements for lease liabilities, in particular the requirements for variable lease payments, payments during optional periods and the reassessment of lease liabilities;

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6 The main difference between the three options is related to recognition of elements and how this impacts accountability and decision-making.

7 For lessees, IPSAS 13 includes the risks and rewards incidental to ownership model and IFRS 16 includes the right-of-use model. For lessors, IFRS 16 changed the risks and rewards incidental to ownership model compared to IAS 17 (the Standard from which IPSAS 13 was drawn primarily) because it made changes to the requirements for subleases, lease modifications, initial direct costs, variable lease payments, and disclosures.

(e) Establishing requirements for separating lease and non-lease components included in the same contract;

(f) Establishing lessee disclosure requirements focused on the most significant features of their lease portfolios; and

(g) Simplifying lessee transition requirements.

BC28. Consequently, the IPSASB decided that it would be in the public interest not to proceed with Option 1, and so to replace IPSAS 13 with a new Standard.

BC29. The IPSASB then considered whether to proceed with Option 2 (an IFRS 16-aligned Standard) or to proceed with Option 3 (ED 64) by applying the six factors outlined in paragraph BC25. Since the main difference between these two options was the lessor accounting model, this was the focus for the Board's discussions, and therefore the paragraphs below focus on lessor accounting, except where otherwise stated.

BC30. Regarding PFM benefits, it was not clear from the responses to ED 64 which option provides the greater overall benefits. For example, some respondents argued that the recognition of a liability would lead to increased financial leverage reflected in the lessor's statement of financial position. Therefore, this factor did not provide a clear indication of which option was preferable.

BC31. Option 3 would entail greater implementation costs and challenges than Option 2 because IFRS 16 substantially carried forward the lessor accounting model in IAS 17 (with which IPSAS 13 is aligned), making only relatively minor changes.

BC32. With respect to alignment with GFS, wherein the lessees and lessors both follow the concept of risks and rewards, the Option 2 accounting model would be aligned for lessors, but not for lessees. From a GFS perspective Option 2 would still require the use of surveys to obtain data on the underlying asset in a lease (when the lessor has a finance lease). However, Option 2 is currently being applied in the private sector and any additional statistical information or data processes required by GFS can be replicated in the public sector if the IPSASB chose this option. Under Option 3, the accounting model would not be aligned with GFS for both lessees and lessors.

BC33. Option 3, under which both the lessees and lessors would follow the concept of control, would be more consistent with the IPSASB's *Conceptual Framework*, while Option 2 would be less consistent with the IPSASB's *Conceptual Framework*[8].

BC34. On the other hand, Option 2 would be aligned with IFRS Standards, while Option 3 would not be so aligned.

BC35. From a project management perspective, Option 2 would have the advantage of being more straightforward and therefore more feasible than Option 3. Additionally, Option 3 would be more challenging from a project delivery perspective because of the probable continued variations in views in further developing the ED 64 lessor accounting proposals, which could therefore extend the project timeline.

BC36. After careful consideration of the respective arguments for and against the Options for each of the six factors, the IPSASB decided that, on balance, the public interest would be better served by proceeding with Option 2 (an IFRS 16–aligned Standard) because it would:

(a) Be less costly and challenging to implement by changing only lessee accounting, and the public sector could benefit from the private sector experience in implementing IFRS 16;

(b) Align with the IPSASB's Strategy & Work Plan strategic theme of Maintaining IFRS Alignment, which was an original objective of the Leases project;

[8] Where a Standard is developed that departs from the *Conceptual Framework*, the IPSASB explains the reasons.

(c) Address more quickly the important off-balance sheet financing of operating leases by lessees that IPSAS 13 permits, without waiting for a new accounting model for lessors; and

(d) Facilitate Phase One delivery, thus permitting the IPSASB to focus on Phase Two of the project, and so to address the important public sector specific issues described in paragraph BC21(b) in a more timely manner.

Exposure Draft (ED) 75, *Leases* and Request for Information

BC37. In January 2020, the IPSASB published:

(a) ED 75, *Leases* as part of Phase One of the Leases project; and

(b) Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases* as part of the Phase Two of the Leases project.

BC38. The IPSASB received 48 and 37 comment letters in response to ED 75 and Request for Information, respectively.

BC39. The feedback received on the proposals in ED 75[9] indicated that:

(a) The majority of respondents agree or partially agreed with the ED 75 proposals for alignment with IFRS 16 and consequently with the right-of-use model for lessees[10] and risks and rewards model for lessors; and

(b) Some respondents who agreed with ED 75 noted that their thinking was generally consistent with IPSASB's reasoning set out in the Basis for Conclusions (BC) to ED 75. Other respondents agreed with ED 75 without providing additional reasons.

BC40. The IPSASB noted that the ED 75 proposals for lessor accounting have much stronger support from respondents when comparing with the ED 64 proposals, which received mixed support.

BC41. Some respondents, while agreeing with the ED 75 proposals for lessee and lessor accounting, provided minor points for further consideration by the IPSASB.

BC42. The few respondents that partially agreed or disagreed with ED 75 provided the following reasons:

(a) Exemption should be added for public sector entities to provide relief from applying the proposed accounting requirements for leases between entities of the public sector because of cost-benefit reasons;

(b) Accounting asymmetry between lessee and lessor;

(c) The underlying asset is recognized neither in the lessor's nor in the lessee's financial statements in the case of a finance lease from the lessor's perspective;

(d) Divergence with Government Finance Statistics (GFS) in lessee accounting;

(e) Scope of public debt for lessees;

(f) The Leases project should have a single phase;

(g) Continue adopting IPSAS 13; and

(h) Proposed model for lessees is too complicated, costly and concentrated on the statement of financial position

[9] The analysis of the responses to the Request for Information will be made in Phase Two of the Leases project.

[10] This feedback was consistent with ED 64 lessee accounting model aligned with IFRS 16, which was also supported.

BC43. The IPSASB considered the overall feedback received and concluded that the issues raised by respondents that partially agreed or disagreed with ED 75 were:

(a) Not public sector specific that warrant departure from IFRS 16; or

(b) Considered by the IPSASB during the development of ED 75 as set out in its Basis for Conclusions (see BC21–BC36).

BC44. Therefore, the IPSASB decided to proceed with the ED 75 proposals for lessee and lessor accounting, subject to addressing the minor points raised by respondents that in the view of the IPSASB would enhance ED 75.

IPSAS 43, *Leases*

BC45. This Standard is based on IFRS 16, *Leases* issued by the IASB. In accordance with existing practice, this Basis for Conclusions outlines only those areas where IPSAS 43 departs from the main requirements of IFRS 16, or where the IPSASB considered such departures taking into consideration the feedback received to ED 75.

Scope (see paragraph 3)

BC46. In developing ED 75, the IPSASB had considered whether to provide an explicit scope exclusion for concessionary leases. The IPSASB had decided not to provide that explicit scope exclusion because:

(a) IPSAS 13 does not have a scope exclusion for concessionary leases;

(b) ED 75 is an IFRS aligned Standard, and IFRS 16 does not exclude concessionary leases from its scope; and

(c) Any issues in applying ED 75 to concessionary leases, including the concession component, will be considered further in Phase Two of the Leases project (see paragraph BC21(b)).

BC47. In reaching this decision, the IPSASB had noted that ED 75 already addressed lease incentives paid by the lessor to the lessee to entice the lessee to enter into the lease. However, in this situation the lease incentives do not modify the nature of the lease as being a lease at market terms. The leases to be considered in Phase Two of the Leases project are concessionary leases where the lessor has the intention of providing a concession that modifies the nature of the lease into a lease at below-market terms.

Responses to ED 75, Leases

BC48. The majority of respondents to ED 75 supported the proposed scope based on the same reasons as set out in paragraph BC39.

BC49. The minority respondents who did not support the proposed scope in ED 75 commented that they would prefer to explicitly scope out concessionary lease because:

(a) The separation of the lease component requirement cannot be applied to leases with no consideration or the exchange is insignificant;

(b) It would help clarify whether ED 75 (measured at cost) or IPSAS 23 (measured at fair value) applies to concessionary leases;

(c) It would help clarify whether ED 75 or the future pronouncement based on the RFI apply to concessionary leases;

(d) Preparers may have to change their accounting treatment of concessionary leases in order to comply with ED 75 following Phase One, and later on have to again change their accounting treatment of

concessionary leases in order to comply with the pronouncement issued following Phase Two of IPSASB's Leases project.

BC50. The IPSASB considered the issues raised by the respondents and decided to proceed with the ED 75 proposals as the basis for IPSAS 43 due to:

(a) The reasons identified in paragraph BC46; and

(b) The issues raised by respondents to ED 75 were not persuasive enough to justify a different approach.

Definitions

Definition of a Lease

BC51. In developing ED 75, the IPSASB decided to adopt the IFRS 16 definition of a lease because it had not identified a public sector specific reason that warranted departure from IFRS 16.

Responses to ED 75, Leases

BC52. While the majority of respondents agreed with the ED 75 proposal, a few respondents suggested that the IPSASB should:

(a) Clarify the term consideration to refer to financial or nonfinancial consideration as public sector entities may also enter into lease contracts in exchange for consideration that is nonfinancial;

(b) Clarify the difference between concessionary leases and nominal leases and quantifying the value and the basis of a nominal lease from the definition of a lease perspective; and

(c) Amend the definition of a lease by adding the term "control the" before "use of an identified asset" to be consistent with the application guidance of ED 75.AG10 because inconsistent references to the right to use make it difficult to decide whether the analysis should focus on the right to use, the right to control the use or the right to direct the use."

BC53. The IPSASB noted that ED 75 deals with consideration in the form of cash flows because:

(a) The definition of a lease is linked to the definition of lease payments, and

(b) This approach is consistent with both IPSAS 13, *Leases* and IFRS 16, *Leases*.

BC54. The IPSASB also noted that Phase Two of the Leases project will address concessionary leases, which the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases* is part of.

BC55. The IPSASB considered the consistency between the definition of a lease and its application guidance. The IPSASB concluded that the application guidance in ED 75 clarifies the principle set out in the definition of a lease about conveying the right to use an identified asset by explicitly referring to the right to control the use of an identified asset, without the need to include it in the definition of a lease. The IPSASB noted that this approach is consistent with the approach in IFRS 16.

BC56. In conclusion, the IPSASB decided to retain the ED 75 proposals in IPSAS 43, *Leases* because it did not identify a public sector specific reason that would warrant a departure from IFRS 16.

Contractual Arrangements

BC57. In developing ED 75, the IPSASB had noted that, in certain jurisdictions, public sector entities are precluded from entering into formal contracts but do enter into arrangements that have the substance of contracts. These arrangements may be known by another term, e.g., a "government order." To assist entities in identifying contracts, which either have the substance or legal form of a contract, the IPSASB had considered

it appropriate to issue additional Application Guidance explaining the factors an entity should consider in assessing whether an arrangement is contractual or non-contractual.

BC58. Consideration was given to whether the term “binding arrangement” should be used to describe the arrangements highlighted in paragraph AG3. The term “binding arrangement” is defined in IPSAS 32, *Service Concession Arrangements: Grantor* as contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract. For example, an arrangement between two government departments that do not have the power to contract may be a binding arrangement. The IPSASB had concluded that the term “binding arrangements,” as used in IPSAS, embraces a wider set of arrangements than those identified in paragraph AG3 and therefore concluded that it should not be used in this Standard. Entities in a binding arrangement would enforce their rights and obligations through legal (enforceable through judicial system) or equivalent means (enforceable through cabinet and ministerial directives, executive authority, or other means that are similar). However, entities in a contract would enforce their rights and obligations only through legal means (i.e., by law, through judicial system).

Responses to ED 75, Leases

BC59. ED 75 specifically referred to contracts in the definition of a lease. Although the majority of respondents agreed with the ED 75 proposals, some respondents disagreed with limiting the definition of a lease to contracts because it would scope out from the final IPSAS on Leases types of arrangements that are not contracts, but are prevalent in the public sector because:

(a) There might not be willing parties to the arrangement; or

(b) Many public sector entities do not have the power to enter into contracts but enter into binding arrangements that confer similar rights and obligations on the parties as if they were a form of contract.

BC60. As a result of these concerns, the IPSASB decided to clarify that IPSAS 43 is designed only for transactions that have the three elements identified in paragraph AG3.

BC61. As noted in BC58, the IPSASB differentiated contracts as enforced by legal means whereas binding arrangements are enforced by legal or equivalent means. A transaction that does not have willing parties is neither a contract nor a binding arrangement.

BC62. As a result, the IPSASB decided to retain the term “contract” in the definition of a lease in IPSAS 43.

Initial Direct Costs

BC63. The IPSASB decided not to include the IFRS 16 requirements for a manufacturer or dealer lessor (see paragraph BC93) in IPSAS 43. Therefore, the IFRS 16 definition of ‘initial direct costs’ has also been amended to remove the reference to a manufacturer or dealer lessor.

Fair Value

BC64. In developing ED 75, the IPSASB had considered whether to retain the fair value definition consistent with IFRS 16 and IPSAS 13 or to include the fair value definition consistent with ED 77.

BC65. The IPSASB had noted that including the fair value definition consistent with ED 77 might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback transactions.

BC66. Therefore, the IPSASB had decided to retain the fair value definition consistent with IFRS 16 because:

(a) It is consistent with the IPSASB’s March 2020 decision to retain the IPSAS 13 lessor requirements and align with IFRS 16 for cost-benefit reasons (see paragraph BC36); and

(b) It is consistent with the IASB's decision to retain in IFRS 16 the fair value definition that existed in IAS 17, as the previous lessor accounting model in IAS 17 was not fundamentally flawed and should not be changed.

Responses to ED 75, *Leases*

BC67. While the majority of respondents agreed with the ED 75 proposals, some respondents disagreed with the retention of the fair value definition from IFRS 16, *Leases* and IPSAS 13, *Leases* in ED 75 because:

(a) Of the possible confusion for users and preparers of having two different fair value definitions in IPSASB's literature;

(b) Sale and leaseback transactions (where the definition of fair value is used) occur infrequently in the public sector;

(c) Of the benefits of the consistent use of terminology in IPSASB literature; and

(d) Most countries are still in the process of implementing IPSAS and, therefore, the change to the ED 77 fair value definition would not cause significant change for their accounting system.

BC68. The IPSASB decided to retain the ED 75 fair value definition in IPSAS 43 because there was no compelling public sector reason to depart from IFRS 16.

Identifying a Lease

BC69. In developing ED 75, the IPSASB had considered whether to refer to both "economic benefits" and "service potential" in the application guidance section in ED 75 on identifying a lease, rather than "economic benefits" alone.

BC70. If the guidance referred only to "economic benefits", the IPSASB had noted that an entity that intends to use the identified asset to provide services to the community might reach the conclusion that the transaction is not a lease because it does not derive economic benefits from the use of that asset, despite the fact that the transaction meets the definition of a lease in ED 75.5. Therefore, the IPSASB had decided to add the term "service potential" in the application guidance section on identifying a lease, where appropriate.

BC71. In reaching this conclusion, the IPSASB had also noted that this approach is consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (2014) in referring to assets in terms of both economic benefits and service potential.

Responses to ED 75, *Leases*

BC72. All respondents to ED 75 supported referring to both "economic benefits" and "service potential" in the application guidance section on identifying a lease, rather than "economic benefits" alone.

BC73. Based on a respondent's suggestion, the IPSASB decided to extend this approach, where appropriate, to the Illustrative Examples. In doing so, the IPSASB's rationale was to refer to "service potential" in all illustrative examples that have generic references to the benefits of the lease.

Lessee Accounting

Recognition Exemptions

BC74. The IPSASB considered the recognition exemptions in IFRS 16. The IPSASB did not identify a public sector specific reason that would warrant different recognition exemptions in this Standard.

BC75. The IPSASB also considered whether the permissible recognition exemptions in IFRS 16 should be a requirement or an option in this IPSAS. The IPSASB noted that, according to the IASB's research, leases of low-value assets represent less than 1% of total non-current assets. In this context, the IPSASB considered

that, on the one hand, making the recognition exemptions a requirement rather than an option would enhance the comparability between public sector entities and provide increased cost relief to them, with a low probability of a negative impact on the reliability and accuracy of financial statements. However, on the other hand, the IPSASB noted that requiring recognition exemptions for short-term leases may create a new arbitrage point, where entities could design their lease contracts to achieve desired accounting outcomes.

BC76. On balance, the IPSASB concluded that there was no public sector specific reason to require rather than permit recognition exemptions. The IPSASB also considered that, by not requiring the application of the exemptions, public sector entities would be able to adopt an approach that appropriately provides a faithful representation of leasing transactions in terms of their own statements of financial position.

BC77. The IPSASB noted that IFRS 16 does not set a specific monetary amount for a lease of a low-value asset. Instead, the IASB included in paragraph BC100 of the Basis for Conclusions: “the IASB had in mind leases of underlying assets with a value, when new, in the order of the magnitude of US$5,000 or less”. The IPSASB considered whether it was appropriate for public sector financial reporting to use the same or a different dollar amount, or not make any reference to a threshold in the Basis for Conclusions of this Standard.

BC78. The IPSASB acknowledged that, for many public sector entities that are services-based, a figure of US$5,000 might represent the value of most of their individual assets. The IPSASB concluded that public sector entities, if they decide to apply the exemption, should use a threshold for determining leases of low-value assets, considering the materiality of leasing transactions in relation to their financial statements. The IPSASB concluded that it would not provide guidance on a specific monetary amount. In assessing materiality, preparers consider whether the omission of information could influence financial statement users’ assessments of accountability or their decision-making.

Responses to ED 75, *Leases*

BC79. In determining a dollar amount for leases of low-value assets, the IPSASB considered the following feedback received on ED 75:

(a) There is an apparent inconsistency between the application guidance on leases of low value assets that refers to an assessment on an absolute basis and the Basis for Conclusions where it refers to an assessment in terms of materiality; and

(b) There is no public sector specific reason for public sector entities not to benefit from the same monetary amount to guide entities in applying the exemption.

BC80. Based on the feedback received, the IPSASB concluded that public sector entities, if they decide to apply the exemption, should use a threshold for determining leases of low-value assets, considering the guidance in IPSAS 43.AG4–AG9. The IPSASB noted that the exemption is to apply to leases for which the underlying asset, when new, is of low value. A lease will not qualify for the exemption if the nature of the underlying asset is such that, when new, its value is typically not low.

BC81. The IPSASB concluded that it would not provide a specific monetary amount in the Basis for Conclusions because the application guidance already provides guidance for applying the requirements consistent with IFRS 16. The IPSASB decided that the outcome of the assessment of whether an underlying asset is of low value should not be affected by the size, nature, or circumstances of the lessee—i.e., the exemption is based on the value, when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset.

Discount Rate

BC82. In developing ED 75, the IPSASB had considered whether to provide additional guidance where:

(a) The lessee’s incremental borrowing rate is different from the likely interest rate implicit in the lease; or

(b) The lessee is unable to determine the interest rate implicit in the lease or has difficulties in determining the incremental borrowing rate.

BC83. The IPSASB had decided that this issue is not public sector specific because private sector entities encounter similar difficulties in determining the implicit rate in the lease and the incremental borrowing rate.

BC84. The IPSASB had noted that the incremental borrowing rate can be determined by:

(a) Taking into account the terms and conditions of the lease;

(b) Referring to a rate that is readily observable as a starting point (for example, the rate that a lessee has paid, or would pay, to borrow money to purchase the type of asset being leased, or the property yield when determining the discount rate to apply to property leases); and

(c) Adjusting such observable rates as is needed to determine the lessee's incremental borrowing rate as defined in ED 75.

Responses to ED 75, *Leases*

BC85. While the majority of respondents agreed with the ED 75 proposals, a few respondents suggested including some guidance on determining the discount rate because of:

(a) Difficulties in determining the implicit rate in the lease, where public sector entities have challenges in accessing borrowings to determine the incremental borrowing rate;

(b) Differences between real and nominal interest rates in non-developed countries with high inflation; and

(c) The lack of guidance on the meaning of "similar value" in the definition of lessee's incremental borrowing rate.

BC86. The IPSASB decided to proceed with the proposals in ED 75 and not provide additional guidance on the discount rate because:

(a) Lack of incremental borrowing rate is also prevalent in the private sector;

(b) The IPSASB has already clarified in BC84 how to identify an appropriate incremental borrowing rate based on similar transactions; and

(c) Differences between real and nominal interest rates are not a public sector specific issue.

COVID-19 Requirements

BC87. In developing ED 75, the IPSASB had included the 2020 amendments to IFRS 16 for COVID-19-related rent concessions. The IPSASB was of the view that the inclusion of these requirements might be useful to preparers and users of general purpose financial reports (GPFRs) because of the uncertain duration and future impacts of the pandemic.

Responses to ED 75, *Leases*

BC88. While the majority of respondents agreed with the ED 75 proposals, a few respondents suggested that these requirements should be applicable to pandemics in general due to the:

(a) Applicability of these requirements may be overtaken by events and therefore will be of no value to the preparers and users of GPFRs; and

(b) Delayed effective dates of other IPSAS.

BC89. The IPSASB noted that the IASB also considered the risk of the practical expedient being applied too broadly, which could result in unintended consequences. Therefore, the IASB decided to limit the scope of the

practical expedient so that it applies only to rent concessions that occur as a direct consequence of the COVID-19 pandemic if other conditions are met.

BC90. Additionally, some respondents suggested changing the date until which the practical expedient can be applied because it will date the Standard and will limit the duration affected by COVID-19. In the end, having the same affected period for all might not work because it might not be the case for everyone.

BC91. The IPSASB noted that, in March 2021, the IASB published Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16). In this publication, the IASB only extended the date of the practical expedient to end on June 30, 2022—it did not introduce either a new practical expedient or a new option to apply (or not apply) the practical expedient. The IASB only wanted these requirements to be applicable to the COVID-19 pandemic by providing a single criterion to be applicable in all jurisdictions.

BC92. The IPSASB decided to retain the ED 75 proposals in IPSAS 43 because it did not identify a public sector specific reason that would warrant a departure from IFRS 16.

Lessor Accounting

Manufacturer or Dealer Lessors

BC93. The IPSASB decided not to include in this Standard the manufacturer or dealer lessor requirements included in IFRS 16 because:

(a) They are not expected to be applied to public sector entities for which IPSAS are designed; and

(b) The IPSASB's constituents did not request its inclusion during consultation on ED 64, which also excluded those requirements.

Responses to ED 75, *Leases*

BC94. While respondents strongly agreed with the ED 75 proposal, one respondent was of the view that the rationale for excluding manufacturer or dealer lessor requirements was not persuasive because although it might not be expected, the public sector is not prohibited from manufacturing or dealing activities.

BC95. The IPSASB recognizes that the relative importance of manufacturer or dealer lessors requirements might vary across jurisdictions. However, the IPSASB decided to proceed with the ED 75 proposal to exclude the manufacturer or dealer lessors requirements in IPSAS 43 because of the:

(a) Reasons identified in paragraph BC93;

(b) Overwhelming support for the ED 75 proposal.

BC96. In reaching this conclusion, the IPSASB noted that if a public sector entity does have manufacturer or dealer lessor arrangements, they could follow IFRS 16 under the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Intermediate Lessors

Responses to ED 75, *Leases*

BC97. While respondents strongly agreed with the ED 75 proposal, one respondent suggested that the IPSASB consider adding guidance related to the scenario where there is a head lease with fixed payments and a sublease with variable lease payments linked to sales, when both have the same lease period. This respondent was of the view that judgements may differ on whether the lease should be classified as an operating lease or a finance lease by the intermediate lessor. A further consideration was related to the recognition of profit and loss related to the right-of-use asset at the commencement date of the sublease.

BC98. The IPSASB decided to proceed with the ED 75 proposals in IPSAS 43 because the IPSASB did not identify a public sector specific reason to depart from the IFRS 16 requirements for intermediate lessors.

Cross-Reference to IFRS 15 Revenue from Contracts with Customers

BC99. When developing this Standard, the IPSASB decided to refer to IFRS 15 instead of the relevant national or international accounting standard dealing with revenue from contracts with customers, where appropriate, because it is consistent with the:

(a) Control-based approach to lessee accounting in IPSAS 43; and

(b) IFRS 16 reference to IFRS 15 in the corresponding requirements.

BC100. In reaching this decision, the IPSASB noted that these references will be updated when the new IPSAS 47, *Revenue* is issued.

Effective Date

BC101. The IPSASB decided that IPSAS 43 should have an effective date of annual financial statements covering periods beginning on or after January 1, 2025, with earlier application permitted.

BC102. In deciding the effective date, the IPSASB considered that:

(a) IFRS 16 also had a three-year period for its application;

(b) IPSAS 41, *Financial Instruments* will be effective in January 1, 2023, which will add to the workload for preparers before having to apply IPSAS 43;

(c) It provides sufficient time for the IPSASB to finalize the new IPSAS 47 and other IPSAS under development in the IPSASB's Work Program, which may have consequential amendments to IPSAS 43;

(d) It allows the IPSASB time to finish Phase Two of the Leases project; and

(e) It allows public sector entities time to identify the impacts of and to prepare for the implementation of the new Leases Standard.

BC103. The IPSASB decided to permit the earlier application of IPSAS 43, instead of encouraging it, because, ideally, the Standard should be applied together with the new IPSAS 47 aligned with IFRS 15.

BC104. The IPSASB noted during the development of this Standard that, for those public sector entities that elect to apply IPSAS 43 early, there might be greater complexity in analyzing revenue transactions under different principles: some lease transactions would be accounted for according to the principles in IFRS 15, while the revenue from other non-lease transactions will still be accounted for according to the principles in IPSAS 9, *Revenue from Exchange Transactions*, until the IPSASB publishes a new IPSAS on Revenue. However, cross-referencing to IFRS 15, where appropriate for revenue recognition, provides a temporary solution that allows public sector entities to prepare for the future changes that might be required when the IPSASB completes its Revenue project and issues the new IPSAS 47.

Revision of IPSAS 43 as a result of *Improvements to IPSAS, 2023*

BC105. The IPSASB reviewed the revisions to IFRS 16, *Leases*, included in *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform—Phase 2* amendments.

BC106. The IPSASB reviewed the revisions to IPSAS 43, Leases, included in *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) issued by the IASB in September 2022, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Lease Liability in a Sale and Leaseback* amendments.

Revision of IPSAS 43 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024

Introduction

BC107. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[11].

BC108. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC109. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or a right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC110. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[12], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[13], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable from 2026 onwards.

BC111. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for lessees in IPSAS 47 for the concession in concessionary leases update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC112. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48), regarding the amendments to IPSAS 43 including respondents' feedback to ED 84.

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[11] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

[12] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[13] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Definitions

BC113. The IPSASB reconsidered whether to modify the definition of a lease to include other types of arrangements that are not contracts.

BC114. The IPSASB decided not to extend the definition of a lease to non-binding arrangements because a lease includes enforceable rights and enforceable obligations for the lessor and lessee; a non-binding arrangement does not.

BC115. Regarding binding arrangements that are not contracts, the IPSASB, when developing IPSAS 43, decided to expand the types of arrangements within the scope of the definition of a contract by adding paragraph AG3 and clarifying that IPSAS 43 is designed only for arrangements that:

(a) Are in substance a contract rather than having the legal form of a contract; and

(b) Have the following three elements:

(i) Willing parties;

(ii) Rights and obligations for the parties to the contract; and

(iii) The remedy for non-performance is enforceable by law.

BC116. The fundamental difference between the definition of a contract in IPSAS 43 and the definition of a binding arrangement is that in the latter the enforceability is broader and includes "equivalent means". In other words, binding arrangements are enforceable both within and outside the legal system, whereas contracts are enforceable only within the legal system. Enforceability through equivalent means is the presence of enforcement mechanisms outside of the legal system, that is similar to the force of law without being legal in nature, such as statutory mechanisms, legislative or executive authority, and cabinet or ministerial directives.

BC117. The IPSASB's Conceptual Framework acknowledges that there are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to enforce the rights and obligations in those arrangements.

BC118. Sometimes in the public sector, there are binding arrangements that, although conveying the right to use an underlying asset, are not, in substance, contracts. For example:

(a) One or both parties to the arrangement are not a willing party (for example: a government conveys to another party the right to use an underlying asset on a unilateral basis);

(b) The enforceable rights and obligations did not arise from a contract (for example: the rights and obligations are stipulated by a government unilaterally); and

(c) Binding arrangements with enforceability mechanisms outside of the legal system (for example, enforcement achieved through executive authority, either cabinet or ministerial directives).

BC119. By extension, when entities have arrangements as described in paragraph BC116, the IPSASB noted that they should not apply IPSAS 43 because:

(a) Those arrangements are not, in substance, contracts, as leases are contractual arrangements by nature; and

(b) IPSAS 43 was designed for arrangements that are in substance lease contracts, provided that the arrangement conveys the right to obtain substantially all of the economic benefits or service potential from the use of the identified asset and the right to direct the use of the identified asset[14].

[14] IPSAS 43 introduced extensive application guidance on the assessment of both rights.

BC120. Therefore, the IPSASB decided to retain the definition of a lease as contractual arrangements in IPSAS 43 because:

(a) IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts; and

(b) It is consistent with IPSAS 41, *Financial Instruments*, which is also only applicable to contracts.

BC121. The IPSASB also considered whether to provide a definition or a description of a concessionary lease. The IPSASB noted that concessionary leases may vary depending on the level of consideration being exchanged, which may make them at below-market terms. In these cases, professional judgment may be required to assess whether, in substance, the transaction meets the definition of a lease or whether it is, in substance, a revenue transaction as a whole.

BC122. The IPSASB decided to provide a description rather than a definition of a concessionary lease because:

(a) It prevents an apparent contradiction of labelling as a lease an arrangement that conveys the right to use an underlying asset without the exchange of consideration; and

(b) It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described.

BC123. The IPSASB noted that there are transactions that convey the right to use an underlying asset without consideration (right-of-use asset in-kind). The IPSASB is of the view that transactions that convey the right to use an underlying asset without consideration do not meet the definition of a lease as defined in IPSAS 43.

BC124. The IPSASB concluded that a transaction that conveys a right-of-use asset in-kind is in substance a revenue transaction and, therefore, the principles in IPSAS 23, *Revenue from Non-Exchange Transactions* (Taxes and Transfers) and IPSAS 47, *Revenue* are applicable to this type of transaction.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC125. While respondents strongly agreed with ED 84 proposals, a few respondents suggested:

(a) Expanding the definition of a lease to include binding arrangements that are not contracts for consistency with IPSAS 47 and IPSAS 48, Transfer Expenses; and

(b) Introducing new definitions on varied topics or adding more guidance related to the proposed definitions.

BC126. The IPSASB considered the reasons raised by the respondents and decided to proceed with the ED 84 proposals on keeping the definition of a lease limited to contracts and not adding new definitions for consistency with current IPSAS.

Identification, Classification, and Scope of Concessionary Leases

BC127. IPSAS 43 introduced new guidance on identifying a lease as a result of an exchange transaction. Building on this guidance, the IPSASB proposed additional guidance to identify, classify, and scope concessionary leases.

BC128. The IPSASB proposed this new guidance because it would help preparers:

(a) Distinguish leases at market terms from leases that have embedded concessions;

(b) Understand the relationship between IPSAS 43 and other IPSAS; and

(c) Apply the IPSAS 43 principles to leases at market terms and apply the principles in other IPSAS to the concessions, as appropriate.

BC129. The IPSASB considered whether to include additional specific guidance on variable lease payments other than those referred in IPSAS 43 when identifying and classifying leases at market or at below-market terms. Lease payments that are dependent on a lessee's sales might influence the identification of a concessionary lease.

BC130. The IPSASB decided not to include this additional guidance in IPSAS 43 because it is not prevalent in the public sector.

BC131. The IPSASB also considered the role of lease modifications when identifying and classifying leases at market or at below-market terms.

BC132. The IPSASB decided not to include additional guidance on lease modifications because an entity needs to apply professional judgment when assessing the conditions in IPSAS 43.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC133. The majority of respondents to ED 84 supported the proposed guidance on identification, classification, and scope.

BC134. Some respondents who did not support ED 84 proposals suggested providing additional guidance on:

(a) Other types of arrangements that convey the right to use an underlying asset in order to have a holistic approach;

(b) Arrangements that convey the right to use that (i) are binding arrangements, but are not in-substance contracts, or (ii) are not binding arrangements;

(c) What constitutes a condition or compliance obligation in the context of a concessionary lease in IPSAS 23; and

(d) Arrangements involving unwilling parties.

BC135. The IPSASB considered the issues raised by respondents and decided to proceed with ED 84 proposals because the respondents' suggestions are outside of the scope of IPSASB's project that led to the development of ED 84.

BC136. A respondent suggested providing a scope exclusion:

(a) Based on significance to public sector accountability (such as those where one party to the lease is a commercial entity); and

(b) Between entities within the same public sector group.

BC137. The IPSASB considered the above suggestions and decided not to provide scope exclusions based on specific characteristics of the entities because it impairs accountability and decision-making: the impact of receiving resources at below-market terms would no longer be visible in the financial statements and the accountability mechanisms may also be applied at entity level, not only at group level on consolidation.

BC138. A respondent suggested providing guidance on right-of-use assets in kind in a single Standard.

BC139. The IPSASB considered the above suggestion and decided to proceed with ED 84 proposals in two Standards because the scope of IPSAS 43 and IPSAS 23[15] was not meant to be changed, and ED 84 proposals need to be consistent with the current scoping of IPSAS. The IPSASB notes that some of the guidance provided to concessionary leases can also be applicable to right-of-use assets in-kind.

[15] The IPSASB carried over this decision to ED 88 with separate proposals for IPSAS 47, which was then carried over to *Concessionary Leases and Other Arrangements Conveying Rights over Assets*.

BC140. Several respondents made suggestions about the proposed application guidance sections on classification of concessionary leases, including the diagrams and the role of consideration in the arrangements. These respondents were of the view that the diagram for lessors was confusing as the lessor did not recognize the non-exchange component and made several drafting suggestions.

BC141. The IPSASB considered these views and decided to enhance the application guidance section on identifying concessionary leases and the terminology in the diagram for lessees. The IPSASB also decided to remove the diagram for lessors because there is no:

(a) Change in the accounting for concessionary leases for lessors compared to leases at market terms; and

(b) Accounting for the foregone revenue in a concessionary lease for lessors.

BC142. Some respondents suggested more guidance on:

(a) Whether the goals/intent of the parties in entering into a lease contract has weight in the determination of concessionary leases; and

(b) Whether the use of the underlying asset for either its financial or its operational capacity influences the determination of whether the market rates based on the current use or the highest-and-best use is appropriate.

BC143. The IPSASB considered these suggestions and decided not to provide more guidance on the above topics because:

(a) The current guidance in IPSAS 43 and in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* is sufficient to help preparers identify a concessionary lease based on the definition of a lease and its market terms; and

(b) The requirements in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* apply a measurement technique specifically developed for concessionary leases, where the requirement of “based on the current use” is provided as a cost-relief to preparers.

BC144. However, the IPSASB decided to add illustrative examples on other lease-type arrangements that are common in the public sector to help preparers identifying a lease.

Lessee

Recognition and Measurement

BC145. IPSAS 43 initially measures the right-of-use assets at cost. This is consistent with the measurement of many other non-financial assets, such as assets within the scope of IPSAS 12, *Inventories*, IPSAS 16, IPSAS 31, *Intangible Assets*, and IPSAS 45 that are a result of exchange transactions. However, for non-exchange transactions a cost measurement basis does not reflect the economics of the transaction because it does not capture the embedded concession.

BC146. To address this issue, when developing the guidance to account for the right-of-use asset and the concession component in concessionary leases in ED 84 and ED 88, the IPSASB considered the principles in the IPSAS mentioned in paragraph BC143, as well as in IPSAS 23, IPSAS 41, *Financial Instruments*, and IPSAS 47.

BC147. The IPSASB noted that the above IPSAS require that assets acquired through non-exchange transactions be measured at their fair value as at the date of acquisition. The IPSASB considered also requiring measuring the right-of-use asset at fair value in a concessionary lease because:

(a) It is consistent with IPSASB’s literature on the accounting for non-exchange transactions, including concessionary loans;

(b) It provides information on operating and financial capacity as referred in the Conceptual Framework for accountability and decision-making purposes; and

(c) Recognizing the implicit concession in a lease at below-market terms would enhance Public Financial Management (PFM) to the extent that the improvements would outweigh the costs associated with such a change for accountability and decision-making purposes.

BC148. However, the IPSASB noted that when an entity values the right-of-use asset at fair value it should measure the right to use the underlying asset, not the underlying asset itself, which is reflected in the payments for the lease at market rates. Therefore, the IPSASB decided to propose measuring the right-of-use asset in a concessionary lease at the present value of payments for the lease at market rates based on the current use of the underlying asset because:

(a) It is a measurement technique consistent with the fair value measurement basis;

(b) It helps preparers in measuring the right-of-use asset using a measurement technique that already exists in IPSAS 43 when dealing with leases that are not at market rates; and

(c) When comparing them with the present value of the contractual payments, preparers can measure the embedded concession.

BC149. The IPSASB also noted that IPSAS 46, *Measurement* introduced a new fair value definition drawn from IFRS 13 *Fair Value Measurement*. The IPSASB also noted that the new fair value definition is associated with the definition of highest and best use.

BC150. The IPSASB decided to refer to the present value of payments for the lease at market rates based on the current use, instead of the highest and best use as implied in the new fair value definition. The IPSASB considered the new fair value definition would not be appropriate because:

(a) The measurement of the right-of-use asset would no longer be based on the current use of the underlying asset, once the current fair value definition is replaced;

(b) There would be increased difficulty in measuring the right-of-use asset as it would be based on other possible uses of the asset to achieve the highest and best use; and

(c) Quite often there is not an active market for right-of-use assets to obtain the highest and best use.

BC151. In reaching this decision, the IPSASB noted that measuring a right-of-use asset at the present value of the lease payments at market rates based on the current use of the underlying asset is determined by considering right-of-use assets that have similar economic benefits or service potential.

BC152. As an exception to the above principle, the IPSASB decided to require measuring the right-of-use asset under a concessionary lease using the contractual payments if the payments for the lease at market rates based on the current use of the underlying asset are not readily available, in order to address the increased difficulty in measuring right-of-use assets in the public sector because of its nature and/or current use (for example, specialized assets). The IPSASB noted that the lease liability would still be reliably measured using the contractual payments for the lease.

BC153. When initially measuring the right-of-use asset in a concessionary lease, the IPSASB expects preparers to apply a reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset.

BC154. The IPSASB also decided to account for the concession component in a concessionary lease following the principles applicable to concessionary loans in IPSAS 23[16] because:

[16] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 23.

(a) Both transactions:

(i) Are at below-market terms at inception;

(ii) Have a concession to the price of the resource being transferred; and

(iii) Have the objective to provide/receive resources with a price at below-market terms;

(b) Transferring a resource in cash or in-kind should not modify the accounting for the concession component as revenue in both transactions, as concessionary leases are in substance financing transactions; and

(c) It prevents preparers choosing between concessionary leases and concessionary loans to achieve desired accounting outcomes.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

Overview

BC155. The majority of respondents to ED 84 supported the proposed guidance on recognition and measurement for concessionary leases for lessees.

BC156. Some respondents disagreed with ED 84 proposals because:

(a) There is a lack of consistency between lessee and lessor accounting;

(b) They are of the view that concessionary leases are:

(i) Not viewed as financing transactions, rather a means to achieve particular objectives or providing social services; and

(ii) Analogous to services in-kind and service concession arrangements.

BC157. The IPSASB considered these views and decided to proceed with ED 84 proposals because:

(a) The lack of consistency between lessee and lessor accounting impacts all leases, and not only concessionary leases. The IPSASB reaffirmed that it is not within the scope of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* to change the accounting models in IPSAS 43.

(b) Both concessionary leases and concessionary loans can be a way to achieve particular objectives, and therefore it is not a specific feature of concessionary leases. The objectives under which concessionary leases are received or granted have no impact on the classification of the transaction as a lease. This means that, provided that the transaction meets the definition of a lease, the principles proposed in ED 84 are appropriate. Concessionary leases are still financing transactions where there is a significant obligation to pay for the acquisition of the right-of-use asset albeit at below-market terms.

(c) Leases from the lessee perspective under the right-of-use model are not analogous to:

(i) Services because in a lease the resource-recipient (lessee) controls the use of the identified asset, while in a service the resource-provider (supplier) controls the use of the asset. Right-of-use assets are analogous to owned assets by owners where the resource-recipient (lessee) controls the use of the asset (the right-of-use asset in a lease).

(ii) Service concession arrangements because in a lease the resource-recipient (lessee) controls the use of the identified asset:

1. While in a service concession arrangement the resource-provider (grantor) controls the use of the identified asset; and

2. To provide services not on behalf of the resource-provider (lessor), whereas in a service concession arrangement the resource-recipient (operator) has a right to access to operate the underlying asset to provide public service on behalf of the resource-provider (grantor).

Option Between Cost and Fair Value

BC158. Some respondents suggested providing an option between cost and fair value to avoid undue cost or effort and others suggested no recognition and measurement of concessionary leases at market rates for cost-benefit reasons.

BC159. The IPSASB considered these suggestions and decided to proceed with ED 84 proposal because:

(a) It is consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, which states that the transaction price of an asset acquired in a non-exchange transaction does not provide information on operational or financial capacity that meets the qualitative characteristics while taking into account the constraints on information on financial reports;

(b) It is consistent with IPSAS as no IPSAS provides an accounting policy option to initially measure at cost or at fair value assets acquired through a non-exchange transaction;

(c) It is conceptually inconsistent to require measurement at fair value of an underlying asset acquired through a non-exchange transaction, but provide an accounting policy option to measure at cost or at fair value the right to use the very same underlying asset;

(d) Should the cost to obtain the market value of lease payments exceed the benefit, the proposals do not require an entity to recognize the right-of-use asset in a concessionary lease measured at market rates and instead should consider the contractual payments; and

(e) The benefits of providing information about the subsidy embedded in a concessionary lease outweigh the cost as long as the preparer does not incur unreasonable efforts and costs to obtain it.

Disclosures Instead of Recognition and Measurement

BC160. Some respondents suggested that disclosures are enough, and that no recognition and measurement requirements are needed.

BC161. The IPSASB considered this suggestion and decided to proceed with ED 84 proposals because according to IPSASB's Conceptual Framework, disclosure is not a substitute for display.

Measurement at Inception or at Commencement Date

BC162. A respondent suggested measuring the right-of-use asset at the inception date, instead of at the commencement date to prevent reassessing all leases for a second time.

BC163. The IPSASB considered this suggestion and decided to proceed with ED 84 proposals because:

(a) A lessee does not obtain and control its right to use the underlying asset until the commencement date;

(b) Any changes to a lease that occur after the inception date and before the commencement date are taken into account when initially measuring the right-of-use asset and lease liability at the commencement date; and

(c) It is more consistent with the measurement date for other transactions, such as the acquisition of property, plant, and equipment.

BC164. In order to prevent preparers from reassessing for a second time whether the transaction is at market terms or at below-market terms at the commencement date, the IPSASB clarified in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* that the assessment is made at inception of the transaction and the measurement is made at the commencement date.

Application of IPSAS 46 Measurement Bases

BC165. Some respondents suggested that the right-of-use asset should be initially measured applying a measurement basis presented in IPSAS 46 (current operational value and fair value), depending on whether the right-of-use asset is held for operational capacity or financial capacity, respectively, or at deemed cost.

BC166. The IPSASB noted that the ED 84 proposal to measure the right-of-use asset is comprised of a measurement technique specifically developed for concessionary leases and is divided into four parts:

(a) Part 1: "present value of payments for the lease"—This requirement applies the concept of the time value of money embedded in the lease because leases normally require a series of payments in the future, even if they are at below-market terms. The measurement technique "present value" is consistent with:

(i) Its applicability in IPSAS 43 for leases at market terms; and

(ii) The accounting principles in IPSAS 46, which measure the current value of assets and liabilities whether the cash flows occur at a point in time or in the future.

(b) Part 2: "at market rates"—This requirement obtains the market lease payments as if the lease was made at market terms. The term "market rates" can be seen as a way of estimating how much the lessee would have to pay for the lease if it was made at market rates.

(c) Part 3: "based on the current use of the underlying asset"—This requirement is a restriction in the assessment of market rates that serves as a cost-relief to preparers, as preparers do not need to search for the highest and best use of the underlying asset.

(d) Part 4: "as at the commencement date"—This requirement is consistent with the requirements in IPSAS 43 for leases at market terms and other items of property, plant, and equipment under IPSAS 45 (see paragraphs BC162–BC163).

BC167. The IPSASB reiterated its reasoning during the development of IPSAS 46 that this Standard is not meant to determine measurement guidance in other IPSAS. The objective of IPSAS 46 is to focus on the definition of appropriate measurement bases and their derivation. IPSAS 46 does not establish requirements for which measurement bases should be used in IPSAS.

BC168. The IPSASB concluded that the proposed measurement principles in ED 84 for right-of-use assets in concessionary leases for lessees are conceptually consistent with the measurement principles in IPSAS. Therefore, the IPSASB decided to carry over these principles to *Concessionary Leases and Other Arrangements Conveying Rights over Assets*.

Terminology

BC169. Several respondents suggested:

(a) Adding more guidance on reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset as at the commencement date of the concessionary lease;

(b) Replacing the wording "not readily available" with "impracticable" in context of measuring the market lease payments; and

(c) Adding more guidance on "market rates".

BC170. The IPSASB decided to carry over the ED 84 proposals to *Concessionary Leases and Other Arrangements Conveying Rights over Assets* for consistency with IPSAS 43 because:

(a) The term "reasonable level of effort" is dependent on the context in which it is applied as:

(i) Paragraph AG15(a) of IPSAS 43 already uses the term "reasonable" in the context of identifying substantive substitution rights; and

(ii) The term "reasonable" is a commonly used term in IPSAS without having additional guidance to explain it.

(b) The wording "readily available" is already used in IPSAS 43 without the wording "reasonable level of effort";

(c) The wording "impracticable":

(i) Sets a higher bar of effort to apply the exception, thus leading to more costs in applying the ED 84 proposals than what was intended by the IPSASB;

(ii) Creates an internal inconsistency in IPSAS 43 (i.e., separating components of a contract (see paragraph 15 of IPSAS 43), initial measurement of the lease liability (see paragraph 27 of IPSAS 43); reassessment of the lease liability (see paragraph 42 of IPSAS 43), and sale and leaseback transactions (see paragraph 101 of IPSAS 43)) for similar situations;

(iii) Is used normally in the context of retrospective application of accounting policies or retrospective restatements to correct an error under IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

BC171. The Measurement-Application Phase project will clarify through proposed amendments to IPSAS 46 that market rates do not include concessions.

Reassessment of the Lease Liability

BC172. The IPSASB decided to provide a relief to preparers for the reassessment of the lease liability in concessionary leases by requiring entities to apply the original discount rate when reassessing the lease liability.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC173. A respondent suggested that the IPSASB consider the updated discount rate for a lease modification because the lessee may always apply the lessee's incremental borrowing rate in case of not knowing the revised interest rate implicit in the lease.

BC174. The IPSASB agreed with the respondent and decided not to modify the IPSAS 43 requirements related to reassessment of the lease liability in case of concessionary leases.

Recognition Exemptions

BC175. The IPSASB considered the applicability to lessees of the general model to account for concessionary leases that are short-term leases and leases for which the underlying asset is of low value.

BC176. The IPSASB decided not to require the general model to lessees' recognition exemptions because:

(a) Leases for which the underlying asset is of low value are not material enough to warrant specific concessionary lease accounting; and

(b) Short-term leases have a lease term of 12 months or less.

Disclosures

BC177. The IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases and related to the accounting model.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC178. Some respondents made several detailed suggestions related to disclosures, such as:

(a) To require disclosures of right-of-use assets by class of underlying asset;

(b) Duplicate in IPSAS 23 the disclosures that exist in IPSAS 43; and

(c) Require disclosures on lessee's dependency on the underlying asset.

BC179. The IPSASB agreed to require disclosures of right-of-use assets by class of underlying asset because it is consistent with IPSAS 43 for leases at market terms. However, the IPSASB decided not to duplicate disclosures for cost-benefit reasons and not to require disclosure on a lessee's dependency on the underlying asset because this topic impacts all leases and not only concessionary leases.

Lessor

Recognition and Measurement

BC180. IPSAS 43 requires lessors to classify leases as either an operating lease or a finance lease under a risks and rewards dual model. Operating leases are viewed as a service, and the net investment in finance leases is viewed as a financial instrument.

BC181. In a finance lease, the substance or main issue of the lease is the underlying asset being transferred with the attached financing (net investment in the lease). The accounting for the transfer of the underlying asset is made in accordance with IPSAS 16, IPSAS 31, and IPSAS 45 as appropriate. The accounting for the attached financing (net investment in the lease) is made in accordance with IPSAS 43, which includes the accounting for the lease payments and the residual value.

BC182. In an operating lease, the substance or main issue of the lease is the stream of cash flows received by the lessor in the form of lease payments, as the lessor continues to recognize the underlying asset.

BC183. As a consequence of the different economics of leases under the risks and rewards dual model, in a:

(a) Concessionary finance lease, the concession is related to the price of the underlying asset transferred to the lessee; and

(b) Concessionary operating lease, the concession component is related to the price of lease payments received from the lessee.

BC184. This means that lessors can have two types of concessionary leases:

(a) Concessionary finance leases-which can be analogous to transferring a non-cash asset (the underlying asset) at below-market terms attached with financing for a portion of the value of the asset transferred (the net investment in the lease); and

(b) Concessionary operating leases-which can be analogous to providing services at below-market terms, as the lessor continues to recognize the underlying asset and the accounting is similar by applying the principles in IPSAS 45 to the accounting of the underlying asset and IPSAS 47 to the accounting of the revenue.

BC185. For concessionary finance leases, the IPSASB decided to continue measuring the transfer of the underlying asset to the lessee at its carrying amount because it is:

(a) The cost of the concession incurred by the lessor, being the economic benefits or service potential given up measured by the carrying amount of the underlying asset; and

(b) Consistent with the derecognition principles in IPSAS 16, IPSAS 31, and IPSAS 45 for disposals.

BC186. For concessionary operating leases, the IPSASB decided to continue measuring the lease payments received by the lessor in accordance with IPSAS 43 because:

(a) No economic benefits or service potential associated with the transaction will flow to the lessor higher than the cash received by the lessor in the form of lease payments made by the lessee; and

(b) It is consistent with revenue recognition principles in IPSAS 23[17].

BC187. In reaching this decision, the IPSASB noted that the terms and conditions of the concessionary operating lease might help an entity assess whether there is an indication that the underlying asset may be impaired in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate.

BC188. Following a cost measurement basis for concessionary leases, the IPSASB noted that lessors recognize the loss related with the derecognition of the underlying asset in a concessionary finance lease in accordance with the applicable IPSAS. This means that the cost of the concession would be the difference between the value of the carrying amount of the underlying asset derecognized and the value of the recognition of the net investment in the lease.

BC189. For concessionary operating leases, the IPSASB noted that lessors continue recognizing as revenue the cash received in the form of lease payments made by lessees and there would be no separate recognition of the concession. This situation occurs because the concession is related to the foregone revenue related to the lease payments. As foregone revenue is not recognized under IPSAS 9[18], the IPSASB did not identify an economic reason to provide an exception to this principle in the context of concessionary operating leases.

BC190. The IPSASB concluded that the cost of the concession will be the difference between the:

(a) Depreciation of the underlying asset, other expenses related to the underlying asset, and the impairment charge related to the underlying asset, if any; and

(b) Revenue obtained in the lease payments received from the lessee.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC191. The majority of respondents to ED 84 supported the ED 84 proposals on recognition and measurement for concessionary leases for lessors.

BC192. Some respondents disagreed with ED 84 proposals because:

(a) ED 84 appears to treat the leasing standard as somehow appropriate for use by lessors in a finance lease providing concessionary leases when there is no stream of cash flows;

(b) Consideration of impairment in a concessionary operating lease should not be contemplated;

(c) In a concessionary finance lease, the underlying asset should not be derecognized if it continues to embody service potential; and

(d) Inconsistency between concessionary operating leases and concessionary finance leases where there is a loss on commencement date of the concessionary finance lease and no loss arises on commencement date of the concessionary operating lease, while both can have service delivery or outcome objectives.

BC193. The IPSASB considered these views and decided to proceed with ED 84 proposals because:

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[17] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 23.

[18] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 9 on this topic.

(a) The main issue in a concessionary finance lease is the underlying asset being transferred at below market terms. In this type of lease, the cost of the concession is the difference between the carrying amount of the underlying asset being transferred and the net investment in the lease. The accounting for the lease component is within the scope of IPSAS 43, and the accounting for the derecognition of the underlying asset is in accordance with IPSAS 16, IPSAS 31, and IPSAS 45, as appropriate.

(b) The IPSASB did not change the requirements for impairment in IPSAS 26, as the principles in that Standard are still applicable assessing impairment of the underlying asset in concessionary operating leases.

(c) The derecognition criteria and the accounting are in scope of IPSAS 16, IPSAS 31, and IPSAS 45, as appropriate, not in scope of IPSAS 43. IPSAS 43 provides several indicators of a finance lease that need to be taken into consideration in a holistic way. *Concessionary Leases and Other Arrangements Conveying Rights over Assets* does not amend the derecognition criteria and the accounting in other IPSAS nor the indicators of a finance leases in IPSAS 43, as these are related to all finance leases, not only concessionary finance leases.

Disclosures

BC194. Similar to lessees, the IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms for lessors. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases for both concessionary finance leases and concessionary operating leases and related to the dual accounting model.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC195. The majority of respondents to ED 84 supported the ED 84 proposals on disclosures for concessionary leases for lessors.

BC196. Some respondents were of the view that there was a lack of information in the disclosures on foregone revenue and costs associated with the underlying asset in concessionary operating leases.

BC197. The IPSASB considered these views and decided not to require the disclosure of foregone revenue because the disclosures required are related to the accounting model[19]. Additionally, the IPSASB decided to require the disclosure of the costs associated with the underlying asset in concessionary operating leases for transparency reasons.

Sale and Leaseback Transactions

BC198. The IPSASB considered whether to amend the requirements in IPSAS 43 on sale and leaseback transactions at below-market terms to be consistent with the requirements of concessionary leases.

BC199. The IPSASB noted that, in principle, from a conceptual perspective, concessionary leases and leasebacks at below-market terms have two key differences:

(a) Different starting points—A leaseback at below-market terms is linked to a previous sale with the same party as interdependent transactions, while a concessionary lease is not linked to a previous sale with the same party; and

(b) Different objectives—A sale and leaseback transaction has the objective of obtaining cash through the sale of the underlying asset and refunding the cash proceeds in the form of lease payments, while a

[19] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 9 on this topic.

concessionary lease has the objective of conveying a concession through the right to use an underlying asset at below-market terms.

BC200. However, leasebacks at below-market terms might exist in the public sector with an identifiable concession embedded because there is no actual prepayment of the leaseback, as the agreed purchase price of the underlying asset is the same as its fair value.

BC201. The IPSASB noted that this may be a public sector-specific situation because normally in the private sector both the sale and leaseback are either at above-market terms or at below-market terms, not the leaseback alone being at below-market terms.

BC202. Therefore, the IPSASB decided to amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback are not linked to a prepayment.

Transition

BC203. The IPSASB considered the transition requirements for concessionary leases. The IPSASB decided to propose transition requirements on concessionary leases similar to leases at market terms, where applicable, in order not to require extra efforts by preparers in applying the new proposed guidance on concessionary leases.

BC204. The IPSASB encourages preparers to apply IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors on transition because of the prevalence in the public sector of concessionary leases with long contract terms.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC205. Several respondents suggested easing the transition requirements for lessees by requiring measurement of the right-of-use asset at the present value of the remaining payments for the lease at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.

BC206. The IPSASB agreed with this suggestion for cost-benefit reasons.

Effective Date

BC207. The IPSASB considered the effective date of the amendments to IPSAS 43 in the context of effective dates of IPSAS 43 to IPSAS 49.

BC208. The IPSASB decided that the effective date of the amendments to IPSAS 43 should be January 1, 2027, with earlier application permitted, because it:

(a) Is broadly consistent with the three-year application period of IPSAS 43;

(b) Does not overwhelm preparers with more changes to be effective at the same time as IPSAS 43 to IPSAS 49; and

(c) Allows preparers an additional year for planning and implementation of the amendments to IPSAS 43 and IPSAS 47 after implementing IPSAS 43 to IPSAS 49 in the previous years.

BC209. The IPSASB also considered postponing the effective date of IPSAS 43 for two years to align with the effective date of the amendments to IPSAS 43 and decided not to do so because:

(a) It is more important to require the application of the new principles in IPSAS 43 sooner rather than later; and

(b) Entities always have the possibility of early adopting the new requirements in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* to a subset of lease transactions in the context of early adopting IPSAS 43 to align the effective dates.

Revisions of IPSAS 43 as a result of Amendments to IPSAS Standards: Specific IFRIC Interpretations

BC210. In September 2023, the IPSASB initiated a narrow scope project to consider seven IFRIC and SIC Interpretations that were issued by the IFRS Interpretations Committee, but had not yet been considered by the IPSASB, to determine their applicability to the public sector. In its assessment, the IPSASB considered whether public sector entities may face similar application issues, and whether incorporating guidance based on the Interpretations into IPSAS would help clarify the application of existing accounting principles.

BC211. The IPSASB reviewed the requirements of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, first issued by the IASB in 2004, and the IFRS Interpretations Committee's considerations in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

BC212. In April 2024, the IPSASB published Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations*, which proposed to add guidance to IPSAS 43 to direct users to relevant guidance in IPSAS 19. The IPSASB received strong constituent support for these proposals. Therefore, it decided to amend IPSAS 43 to incorporate the proposed guidance.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 43.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 43.

Difference between services, service concession arrangements, and leases

IG2. The diagram below summarizes some differences between a service, a service concession arrangement and a lease and the respective guidance in IPSAS.

Classification / Type of control	Service	Service concession arrangement	Lease
Control of an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: • Finance Lease: No • Operating Lease: Yes Lessee: No
Control of the right to use an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: No Lessee: Yes
Control of the right to access to operate an identified asset	Supplier: Yes Customer: No	Grantor: No Operator: Yes	Lessor: No Lessee: Yes
IPSAS	47, *Revenue*	32, *Service Concession Arrangements: Grantor*	43, *Leases*

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Illustrative Examples

These examples accompany, but are not part of, IPSAS 43.

IE1. These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IPSAS 43 to particular aspects of a lease (or other contracts) on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific industry illustrated. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 43.

Identifying a Lease (see paragraphs 10–12 and AG10–AG31)

IE2. The following examples illustrate how an entity determines whether a contract is, or contains, a lease.

Example 1–Rail Cars

Example 1A: a contract between Customer and a freight carrier (Supplier) provides Customer with the use of 10 rail cars of a particular type for five years. The contract specifies the rail cars; the cars are owned by Supplier. Customer determines when, where and which goods are to be transported using the cars. When the cars are not in use, they are kept at Customer's premises. Customer can use the cars for another purpose (for example, storage) if it so chooses. However, the contract specifies that Customer cannot transport particular types of cargo (for example, explosives). If a particular car needs to be serviced or repaired, Supplier is required to substitute a car of the same type. Otherwise, and other than on default by Customer, Supplier cannot retrieve the cars during the five-year period.

The contract also requires Supplier to provide an engine and a driver when requested by Customer. Supplier keeps the engines at its premises and provides instructions to the driver detailing Customer's requests to transport goods. Supplier can choose to use any one of a number of engines to fulfil each of Customer's requests, and one engine could be used to transport not only Customer's goods, but also the goods of other customers (i.e., if other customers require the transportation of goods to destinations close to the destination requested by Customer and within a similar timeframe, Supplier can choose to attach up to 100 rail cars to the engine).

The contract contains leases of rail cars. Customer has the right to use 10 rail cars for five years.

There are 10 identified cars. The cars are explicitly specified in the contract. Once delivered to Customer, the cars can be substituted only when they need to be serviced or repaired (see paragraph AG19). The engine used to transport the rail cars is not an identified asset because it is neither explicitly specified nor implicitly specified in the contract.

Customer has the right to control the use of the 10 rail cars throughout the five-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the cars over the five-year period of use. Customer has exclusive use of the cars throughout the period of use, including when they are not being used to transport Customer's goods.

(b) Customer has the right to direct the use of the cars because the conditions in paragraph AG25(a) exist. The contractual restrictions on the cargo that can be transported by the cars are protective rights of Supplier and define the scope of Customer's right to use the cars. Within the scope of its right of use defined in the contract, Customer makes the relevant decisions about how and for what purpose the cars are used by being able to decide when and where the rail cars will be used and which goods are transported using the cars. Customer also determines whether and how the cars will be used when not

being used to transport its goods (for example, whether and when they will be used for storage). Customer has the right to change these decisions during the five-year period of use.

Although having an engine and driver (controlled by Supplier) to transport the rail cars is essential to the efficient use of the cars, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the rail cars are used. Consequently, Supplier does not control the use of the cars during the period of use.

Example 1B: the contract between Customer and Supplier requires Supplier to transport a specified quantity of goods by using a specified type of rail car in accordance with a stated timetable for a period of five years. The timetable and quantity of goods specified are equivalent to Customer having the use of 10 rail cars for five years. Supplier provides the rail cars, driver and engine as part of the contract. The contract states the nature and quantity of the goods to be transported (and the type of rail car to be used to transport the goods). Supplier has a large pool of similar cars that can be used to fulfil the requirements of the contract. Similarly, Supplier can choose to use any one of a number of engines to fulfil each of Customer's requests, and one engine could be used to transport not only Customer's goods, but also the goods of other customers. The cars and engines are stored at Supplier's premises when not being used to transport goods.

The contract does not contain a lease of rail cars or of an engine.

The rail cars and the engines used to transport Customer's goods are not identified assets. Supplier has the substantive right to substitute the rail cars and engine because:

(a) Supplier has the practical ability to substitute each car and the engine throughout the period of use (see paragraph AG15(a)). Alternative cars and engines are readily available to Supplier and Supplier can substitute each car and the engine without Customer's approval.

(b) Supplier would benefit economically from substituting each car and the engine (see paragraph AG15(b)). There would be minimal, if any, cost associated with substituting each car or the engine because the cars and engines are stored at Supplier's premises and Supplier has a large pool of similar cars and engines. Supplier benefits from substituting each car or the engine in contracts of this nature because substitution allows Supplier to, for example, (i) use cars or an engine to fulfil a task for which the cars or engine are already positioned to perform (for example, a task at a rail yard close to the point of origin) or (ii) use cars or an engine that would otherwise be sitting idle because they are not being used by a customer.

Accordingly, Customer does not direct the use, nor have the right to obtain substantially all of the economic benefits or service potential from use, of an identified car or an engine. Supplier directs the use of the rail cars and engine by selecting which cars and engine are used for each particular delivery and obtains substantially all of the economic benefits from use of the rail cars and engine. Supplier is only providing freight capacity.

Example 2–Allocated Space

A coffee company (Customer) enters into a contract with an airport operator (Supplier) to use a space in the airport to sell its goods for a three-year period. The contract states the amount of space and that the space may be located at any one of several boarding areas within the airport. Supplier has the right to change the location of the space allocated to Customer at any time during the period of use. There are minimal costs to Supplier associated with changing the space for the Customer: Customer uses a kiosk (that it owns) that can be moved easily to sell its goods. There are many areas in the airport that are available and that would meet the specifications for the space in the contract.

The contract does not contain a lease.

Although the amount of space Customer uses is specified in the contract, there is no identified asset. Customer controls its owned kiosk. However, the contract is for space in the airport, and this space can change at the discretion of Supplier. Supplier has the substantive right to substitute the space Customer uses because:

(a) Supplier has the practical ability to change the space used by Customer throughout the period of use (see paragraph AG15(a)). There are many areas in the airport that meet the specifications for the space in the contract, and Supplier has the right to change the location of the space to other space that meets the specifications at any time without Customer's approval.

(b) Supplier would benefit economically from substituting the space (see paragraph AG15(b)). There would be minimal cost associated with changing the space used by Customer because the kiosk can be moved easily. Supplier benefits from substituting the space in the airport because substitution allows Supplier to make the most effective use of the space at boarding areas in the airport to meet changing circumstances.

Example 3–Fiber-Optic Cable

Example 3A: Customer enters into a 15-year contract with a utilities company (Supplier) for the right to use three specified, physically distinct dark fibers within a larger cable connecting Hong Kong to Tokyo. Customer makes the decisions about the use of the fibers by connecting each end of the fibers to its electronic equipment (i.e., Customer 'lights' the fibers and decides what data, and how much data, those fibers will transport). If the fibers are damaged, Supplier is responsible for the repairs and maintenance. Supplier owns extra fibers, but can substitute those for Customer's fibers only for reasons of repairs, maintenance or malfunction (and is obliged to substitute the fibers in these cases).

The contract contains a lease of dark fibers. Customer has the right to use the three dark fibers for 15 years.

There are three identified fibers. The fibers are explicitly specified in the contract and are physically distinct from other fibers within the cable. Supplier cannot substitute the fibers other than for reasons of repairs, maintenance or malfunction (see paragraph AG19).

Customer has the right to control the use of the fibers throughout the 15-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the fibers over the 15-year period of use. Customer has exclusive use of the fibers throughout the period of use.

(b) Customer has the right to direct the use of the fibers because the conditions in paragraph AG25(a) exist. Customer makes the relevant decisions about how and for what purpose the fibers are used by deciding (i) when and whether to light the fibers and (ii) when and how much output the fibers will produce (i.e., what data, and how much data, those fibers will transport). Customer has the right to change these decisions during the 15-year period of use.

Although Supplier's decisions about repairing and maintaining the fibers are essential to their efficient use, those decisions do not give Supplier the right to direct how and for what purpose the fibers are used. Consequently, Supplier does not control the use of the fibers during the period of use.

Example 3B: Customer enters into a 15-year contract with Supplier for the right to use a specified amount of capacity within a cable connecting Hong Kong to Tokyo. The specified amount is equivalent to Customer having the use of the full capacity of three fiber strands within the cable (the cable contains 15 fibers with similar capacities). Supplier makes decisions about the transmission of data (i.e., Supplier lights the fibers, makes decisions about which fibers are used to transmit Customer's traffic and makes decisions about the electronic equipment that Supplier owns and connects to the fibers).

The contract does not contain a lease.

Supplier makes all decisions about the transmission of its customers' data, which requires the use of only a portion of the capacity of the cable for each customer. The capacity portion that will be provided to Customer is not physically distinct from the remaining capacity of the cable and does not represent substantially all of the capacity of the cable (see paragraph AG21). Consequently, Customer does not have the right to use an identified asset.

Example 4–Office Unit

Customer enters into a contract with a property owner (Supplier) to use Office Unit A for a five-year period. Office Unit A is part of a larger office space with many office units.

Customer is granted the right to use Office Unit A. Supplier can require Customer to relocate to another office unit. In that case, Supplier is required to provide Customer with an office unit of similar quality and specifications to Office Unit A and to pay for Customer's relocation costs. Supplier would benefit economically from relocating Customer only if a major new tenant were to decide to occupy a large amount of office space at a rate sufficiently favorable to cover the costs of relocating Customer and other tenants in the office space. However, although it is possible that those circumstances will arise, at inception of the contract, it is not likely that those circumstances will arise.

The contract requires Customer to use Office Unit A to operate its well-known tourist office to sell or provide its services during the hours that the larger office space is open. Customer makes all of the decisions about the use of the office unit during the period of use. For example, Customer decides on the mix of services sold or provided from the unit, the pricing of the services sold or provided and the number of employees working. Customer also controls physical access to the unit throughout the five-year period of use.

The contract requires Customer to make fixed payments to Supplier, as well as variable payments that are a percentage of services sold or provided from Office Unit A.

Supplier provides cleaning and security services as part of the contract.

The contract contains a lease of office space. Customer has the right to use Office Unit A for five years.

Office Unit A is an identified asset. It is explicitly specified in the contract. Supplier has the practical ability to substitute the office unit, but could benefit economically from substitution only in specific circumstances. Supplier's substitution right is not substantive because, at inception of the contract, those circumstances are not considered likely to arise (see paragraph AG17).

Customer has the right to control the use of Office Unit A throughout the five-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of Office Unit A over the five-year period of use. Customer has exclusive use of Office Unit A throughout the period of use. Although a portion of the cash flows derived from services sold or provided from Office Unit A will flow from Customer to Supplier, this represents consideration that Customer pays Supplier for the right to use the office unit. It does not prevent Customer from having the right to obtain substantially all of the economic benefits or service potential from use of Office Unit A.

(b) Customer has the right to direct the use of Office Unit A because the conditions in paragraph AG25(a) exist. The contractual restrictions on the services that can be provided or sold from Office Unit A, and when Office Unit A is open, define the scope of Customer's right to use Office Unit A. Within the scope of its right of use defined in the contract, Customer makes the relevant decisions about how and for what purpose Office Unit A is used by being able to decide, for example, the mix of services that will be provided from or sold in the office unit and the sale price for those services. Customer has the right to change these decisions during the five-year period of use.

Although cleaning, security, and advertising services are essential to the efficient use of Office Unit A, Supplier's decisions in this regard do not give it the right to direct how and for what purpose Office Unit A is used. Consequently, Supplier does not control the use of Office Unit A during the period of use and Supplier's decisions do not affect Customer's control of the use of Office Unit A.

Example 5–Truck Rental

Customer enters into a contract with Supplier for the use of a truck for one week to transport cargo from New York to San Francisco. Supplier does not have substitution rights. Only cargo specified in the contract is permitted to be transported on this truck for the period of the contract. The contract specifies a maximum distance that the truck can be driven. Customer is able to choose the details of the journey (speed, route, rest stops, etc.) within the parameters of the contract. Customer does not have the right to continue using the truck after the specified trip is complete.

The cargo to be transported, and the timing and location of pick-up in New York and delivery in San Francisco, are specified in the contract.

Customer is responsible for driving the truck from New York to San Francisco.

The contract contains a lease of a truck. Customer has the right to use the truck for the duration of the specified trip.

There is an identified asset. The truck is explicitly specified in the contract, and Supplier does not have the right to substitute the truck.

Customer has the right to control the use of the truck throughout the period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the truck over the period of use. Customer has exclusive use of the truck throughout the period of use.

(b) Customer has the right to direct the use of the truck because the conditions in AG25(b)(i) exist. How and for what purpose the truck will be used (i.e., the transportation of specified cargo from New York to San Francisco within a specified timeframe) is predetermined in the contract. Customer directs the use of the truck because it has the right to operate the truck (for example, speed, route, rest stops) throughout the period of use. Customer makes all of the decisions about the use of the truck that can be made during the period of use through its control of the operations of the truck.

Because the duration of the contract is one week, this lease meets the definition of a short-term lease.

Example 6–Ship

Example 6A: Customer enters into a contract with a ship owner (Supplier) for the transportation of cargo from Rotterdam to Sydney on a specified ship. The ship is explicitly specified in the contract and Supplier does not have substitution rights. The cargo will occupy substantially all of the capacity of the ship. The contract specifies the cargo to be transported on the ship and the dates of pickup and delivery.

Supplier operates and maintains the ship and is responsible for the safe passage of the cargo on board the ship. Customer is prohibited from hiring another operator for the ship or operating the ship itself during the term of the contract.

The contract does not contain a lease.

There is an identified asset. The ship is explicitly specified in the contract and Supplier does not have the right to substitute that specified ship.

Customer has the right to obtain substantially all of the economic benefits or service potential from use of the ship over the period of use. Its cargo will occupy substantially all of the capacity of the ship, thereby preventing other parties from obtaining economic benefits or service potential from use of the ship.

However, Customer does not have the right to control the use of the ship because it does not have the right to direct its use. Customer does not have the right to direct how and for what purpose the ship is used. How and for what purpose the ship will be used (i.e., the transportation of specified cargo from Rotterdam to Sydney within a specified timeframe) is predetermined in the contract. Customer has no right to change how and for what purpose the ship is used during the period of use. Customer has no other decision-making rights about the use of the ship during the period of use (for example, it does not have the right to operate the ship) and did not design the ship. Customer has the same rights regarding the use of the ship as if it were one of many customers transporting cargo on the ship.

Example 6B: Customer enters into a contract with Supplier for the use of a specified ship for a five-year period. The ship is explicitly specified in the contract and Supplier does not have substitution rights.

Customer decides what cargo will be transported, and whether, when and to which ports the ship will sail, throughout the five-year period of use, subject to restrictions specified in the contract. Those restrictions prevent Customer from sailing the ship into waters at a high risk of piracy or carrying hazardous materials as cargo.

Supplier operates and maintains the ship and is responsible for the safe passage of the cargo on board the ship. Customer is prohibited from hiring another operator for the ship of the contract or operating the ship itself during the term of the contract.

The contract contains a lease. Customer has the right to use the ship for five years.

There is an identified asset. The ship is explicitly specified in the contract, and Supplier does not have the right to substitute that specified ship.

Customer has the right to control the use of the ship throughout the five-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the ship over the five-year period of use. Customer has exclusive use of the ship throughout the period of use.

(b) Customer has the right to direct the use of the ship because the conditions in paragraph AG25(a) exist. The contractual restrictions about where the ship can sail and the cargo to be transported by the ship define the scope of Customer's right to use the ship. They are protective rights that protect Supplier's investment in the ship and Supplier's personnel. Within the scope of its right of use, Customer makes the relevant decisions about how and for what purpose the ship is used throughout the five-year period of use because it decides whether, where and when the ship sails, as well as the cargo it will transport. Customer has the right to change these decisions throughout the five-year period of use.

Although the operation and maintenance of the ship are essential to its efficient use, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the ship is used. Instead, Supplier's decisions are dependent upon Customer's decisions about how and for what purpose the ship is used.

Example 7–Aircraft

Customer enters into a contract with an aircraft owner (Supplier) for the use of an explicitly specified aircraft for a two-year period. The contract details the interior and exterior specifications for the aircraft.

There are contractual and legal restrictions in the contract on where the aircraft can fly. Subject to those restrictions, Customer determines where and when the aircraft will fly, and which passengers and cargo will be transported on the aircraft. Supplier is responsible for operating the aircraft, using its own crew. Customer

is prohibited from hiring another operator for the aircraft or operating the aircraft itself during the term of the contract.

Supplier is permitted to substitute the aircraft at any time during the two-year period and must substitute the aircraft if it is not working. Any substitute aircraft must meet the interior and exterior specifications in the contract. There are significant costs involved in outfitting an aircraft in Supplier's fleet to meet Customer's specifications.

The contract contains a lease. Customer has the right to use the aircraft for two years.

There is an identified asset. The aircraft is explicitly specified in the contract and, although Supplier can substitute the aircraft, its substitution right is not substantive because the conditions in paragraph AG15(b) do not exist. Supplier's substitution right is not substantive because of the significant costs involved in outfitting another aircraft to meet the specifications required by the contract such that Supplier is not expected to benefit economically from substituting the aircraft.

Customer has the right to control the use of the aircraft throughout the two-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the aircraft over the two-year period of use. Customer has exclusive use of the aircraft throughout the period of use.

(b) Customer has the right to direct the use of the aircraft because the conditions in paragraph AG25(a) exist. The restrictions on where the aircraft can fly define the scope of Customer's right to use the aircraft. Within the scope of its right of use, Customer makes the relevant decisions about how and for what purpose the aircraft is used throughout the two-year period of use because it decides whether, where and when the aircraft travels as well as the passengers and cargo it will transport. Customer has the right to change these decisions throughout the two-year period of use.

Although the operation of the aircraft is essential to its efficient use, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the aircraft is used. Consequently, Supplier does not control the use of the aircraft during the period of use and Supplier's decisions do not affect Customer's control of the use of the aircraft.

Example 8–Contract for Shirts

Customer enters into a contract with a producer (Supplier) to purchase a particular type, quality and quantity of shirts for a three-year period. The type, quality and quantity of shirts are specified in the contract.

Supplier has only one factory that can meet the needs of Customer. Supplier is unable to supply the shirts from another factory or source the shirts from a third party supplier. The capacity of the factory exceeds the output for which Customer has contracted (i.e., Customer has not contracted for substantially all of the capacity of the factory).

Supplier makes all decisions about the operations of the factory, including the production level at which to run the factory and which customer contracts to fulfil with the output of the factory that is not used to fulfil Customer's contract.

The contract does not contain a lease.

The factory is an identified asset. The factory is implicitly specified because Supplier can fulfil the contract only through the use of this asset.

Customer does not control the use of the factory because it does not have the right to obtain substantially all of the economic benefits or service potential from use of the factory. This is because Supplier could decide to use the factory to fulfil other customer contracts during the period of use.

Customer also does not control the use of the factory because it does not have the right to direct the use of the factory. Customer does not have the right to direct how and for what purpose the factory is used during the three-year period of use. Customer's rights are limited to specifying output from the factory in the contract with Supplier. Customer has the same rights regarding the use of the factory as other customers purchasing shirts from the factory. Supplier has the right to direct the use of the factory because Supplier can decide how and for what purpose the factory is used (i.e., Supplier has the right to decide the production level at which to run the factory and which customer contracts to fulfil with the output produced.(

Either the fact that Customer does not have the right to obtain substantially all of the economic benefits or service potential from use of the factory, or that Customer does not have the right to direct the use of the factory, would be sufficient in isolation to conclude that Customer does not control the use of the factory.

Example 9–Contract for Energy/Power

Example 9A: a public sector entity (Customer) enters into a contract with a power company (Supplier) to purchase all of the electricity produced by a new solar farm for 20 years. The solar farm is explicitly specified in the contract and Supplier has no substitution rights. The solar farm is owned by Supplier and the energy cannot be provided to Customer from another asset. Customer designed the solar farm before it was constructed—Customer hired experts in solar energy to assist in determining the location of the farm and the engineering of the equipment to be used. Supplier is responsible for building the solar farm to Customer's specifications, and then operating and maintaining it. There are no decisions to be made about whether, when or how much electricity will be produced because the design of the asset has predetermined those decisions. Supplier will receive tax credits relating to the construction and ownership of the solar farm, while Customer receives renewable energy credits that accrue from use of the solar farm.

The contract contains a lease. Customer has the right to use the solar farm for 20 years.

There is an identified asset because the solar farm is explicitly specified in the contract, and Supplier does not have the right to substitute the specified solar farm.

Customer has the right to control the use of the solar farm throughout the 20-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the solar farm over the 20-year period of use. Customer has exclusive use of the solar farm; it takes all of the electricity produced by the farm over the 20-year period of use as well as the renewable energy credits that are a by-product from use of the solar farm. Although Supplier will receive economic benefits from the solar farm in the form of tax credits, those economic benefits relate to the ownership of the solar farm rather than the use of the solar farm and, thus, are not considered in this assessment.

(b) Customer has the right to direct the use of the solar farm because the conditions in paragraph AG25(b)(ii) exist. Neither Customer, nor Supplier, decides how and for what purpose the solar farm is used during the period of use because those decisions are predetermined by the design of the asset (i.e., the design of the solar farm has, in effect, programmed into the asset any relevant decision-making rights about how and for what purpose the solar farm is used throughout the period of use). Customer does not operate the solar farm; Supplier makes the decisions about the operation of the solar farm. However, Customer's design of the solar farm has given it the right to direct the use of the farm. Because the design of the solar farm has predetermined how and for what purpose the asset will be used throughout the period of use, Customer's control over that design is substantively no different from Customer controlling those decisions.

Example 9B: Customer enters into a contract with Supplier to purchase all of the power produced by an explicitly specified power plant for three years. The power plant is owned and operated by Supplier.

Supplier is unable to provide power to Customer from another plant. The contract sets out the quantity and timing of power that the power plant will produce throughout the period of use, which cannot be changed in the absence of extraordinary circumstances (for example, emergency situations). Supplier operates and maintains the plant on a daily basis in accordance with industry-approved operating practices. Supplier designed the power plant when it was constructed some years before entering into the contract with Customer—Customer had no involvement in that design.

The contract does not contain a lease.

There is an identified asset because the power plant is explicitly specified in the contract, and Supplier does not have the right to substitute the specified plant.

Customer has the right to obtain substantially all of the economic benefits or service potential from use of the identified power plant over the three-year period of use. Customer will take all of the power produced by the power plant over the three-year period of use.

However, Customer does not have the right to control the use of the power plant because it does not have the right to direct its use. Customer does not have the right to direct how and for what purpose the plant is used. How and for what purpose the plant is used (i.e., whether, when and how much power the plant will produce) is predetermined in the contract. Customer has no right to change how and for what purpose the plant is used during the period of use. Customer has no other decision-making rights about the use of the power plant during the period of use (for example, it does not operate the power plant) and did not design the plant. Supplier is the only party that can make decisions about the plant during the period of use by making the decisions about how the plant is operated and maintained. Customer has the same rights regarding the use of the plant as if it were one of many customers obtaining power from the plant.

Example 9C: Customer enters into a contract with Supplier to purchase all of the power produced by an explicitly specified power plant for 10 years. The contract states that Customer has rights to all of the power produced by the plant (i.e., Supplier cannot use the plant to fulfil other contracts).

Customer issues instructions to Supplier about the quantity and timing of the delivery of power. If the plant is not producing power for Customer, it does not operate.

Supplier operates and maintains the plant on a daily basis in accordance with industry-approved operating practices.

The contract contains a lease. Customer has the right to use the power plant for 10 years.

There is an identified asset. The power plant is explicitly specified in the contract and Supplier does not have the right to substitute the specified plant.

Customer has the right to control the use of the power plant throughout the 10-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the power plant over the 10-year period of use. Customer has exclusive use of the power plant; it has rights to all of the power produced by the power plant throughout the 10-year period of use.

(b) Customer has the right to direct the use of the power plant because the conditions in paragraph AG25(a) exist. Customer makes the relevant decisions about how and for what purpose the power plant is used because it has the right to determine whether, when and how much power the plant will produce (i.e., the timing and quantity, if any, of power produced) throughout the period of use. Because Supplier is prevented from using the power plant for another purpose, Customer’s decision-making

about the timing and quantity of power produced, in effect, determines when, and whether, the plant produces output.

Although the operation and maintenance of the power plant are essential to its efficient use, Supplier's decisions in this regard do not give it the right to direct how and for what purpose the power plant is used. Consequently, Supplier does not control the use of the power plant during the period of use. Instead, Supplier's decisions are dependent upon Customer's decisions about how and for what purpose the power plant is used.

Example 10–Contract for Network Services

Example 10A: Customer enters into a contract with a telecommunications company (Supplier) for network services for two years. The contract requires Supplier to supply network services that meet a specified quality level. In order to provide the services, Supplier installs and configures servers at Customer's premises—Supplier determines the speed and quality of data transportation in the network using the servers. Supplier can reconfigure or replace the servers when needed to continuously provide the quality of network services defined in the contract. Customer does not operate the servers or make any significant decisions about their use.

The contract does not contain a lease. Instead, the contract is a service contract in which Supplier uses the equipment to meet the level of network services determined by Customer.

There is no need to assess whether the servers installed at Customer's premises are identified assets. This assessment would not change the analysis of whether the contract contains a lease because Customer does not have the right to control the use of the servers.

Customer does not control the use of the servers because Customer's only decision-making rights relate to deciding upon the level of network services (the output of the servers) before the period of use—the level of network services cannot be changed during the period of use without modifying the contract. For example, even though Customer produces the data to be transported, that activity does not directly affect the configuration of the network services and, thus, it does not affect how and for what purpose the servers are used.

Supplier is the only party that can make relevant decisions about the use of the servers during the period of use. Supplier has the right to decide how data is transported using the servers, whether to reconfigure the servers and whether to use the servers for another purpose. Accordingly, Supplier controls the use of the servers in providing network services to Customer.

Example 10B: Customer enters into a contract with an information technology company (Supplier) for the use of an identified server for three years. Supplier delivers and installs the server at Customer's premises in accordance with Customer's instructions, and provides repair and maintenance services for the server, as needed, throughout the period of use. Supplier substitutes the server only in the case of malfunction. Customer decides which data to store on the server and how to integrate the server within its operations. Customer can change its decisions in this regard throughout the period of use.

The contract contains a lease. Customer has the right to use the server for three years.

There is an identified asset. The server is explicitly specified in the contract. Supplier can substitute the server only if it is malfunctioning (see paragraph AG19).

Customer has the right to control the use of the server throughout the three-year period of use because:

(a) Customer has the right to obtain substantially all of the economic benefits or service potential from use of the server over the three-year period of use. Customer has exclusive use of the server throughout the period of use.

(b) Customer has the right to direct the use of the server (because the conditions in paragraph AG25(a) exist). Customer makes the relevant decisions about how and for what purpose the server is used because it has the right to decide which aspect of its operations the server is used to support and which data it stores on the server. Customer is the only party that can make decisions about the use of the server during the period of use.

Example 10A–Access Rights

A Government Agency (Entity) enters into a contract with a public sector entity (Customer) to convey the right of access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its operations. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.

The contract does not contain a lease of land or of small station cabins.

Although the land used by Customer is specified in the contract, there is no identified asset. The contract is to use land and small station cabins, and this can change without much impact on both Entity's and Customer's operations.

The Customer does not have the right to obtain substantially all of the economic benefits of service potential from the use of the land and of the small station cabins because the Entity can still obtain much more economic benefit and service potential from other operations.

The Customer does not have the right to direct the use because the Entity can change the land and the small station cabins that the Customer is allowed to use.

Example 10B–Shared Properties

Municipality A (Entity) enters into a contract with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it for its own activities. The Customer pays transaction consideration upfront to the Entity each month, based on the number of days it plans to use the office space.

The contract does not contain a lease of the floor.

Although the Customer has the right to direct the use of the floor in the days that it is using it, the Customer does not have the right to obtain substantially all of the economic benefits or service potential from the use of the floor because the Entity continues to use the floor for the majority of the time during the contract term and, therefore, obtaining substantially all of the economic benefits or service potential from the use of the floor.

Assessing Whether the Lease is at Market Terms or at Below-Market Terms (see paragraphs 18A–18D, AG32A, and AG60–AG62)

IE2A. The following examples illustrate how an entity assesses whether a lease is at market terms or at below-market terms.

Example 10C–Assessing Whether the Lease is at Market Terms or at Below-Market Terms

Municipality A (Lessee) enters into a lease contract with Government Agency B (Lessor) to use ten units in a building for its office operations for a ten-year period. The lease contract states that the Lessee agrees to pay the Lessor CU100,000 per month. The Lessor usually leases those units for CU185,000 per month,

which is the current market rate, to private sector entities for the same purpose. The Lessor decided to lease those units at below-market terms because the Lessee is running a specific sports program for youth.

The lease is at below-market terms at inception and at commencement dates.

Lease Incentives and Lease Concessions (see paragraphs 5, 18A–18D, AG32A, and AG60–AG62)

IE2B. The following examples illustrate how an entity distinguishes a lease incentive from a lease concession.

Example 10D–Lease Incentives

Private sector entity Y (Lessor) has for lease ten units in a building for office operations for CU110,000 per month. Government agency X (Lessee) is interested in leasing those ten units for a prolonged period of time and has lesser credit risk. The Lessee ended up entering into the lease because the Lessor reduced the price of the lease payments by CU5,000 per month, to match market rates at inception.

The CU5,000 per month reduction is a lease incentive at inception and at commencement dates.

Example 10E–Lease Concessions

Government agency Z (Lessor) has built and has for lease a multi-purpose sports complex for youth. The local sports club W (Lessee) wants to expand its activities in terms of numbers of athletes and types of sports being offered by the club. The Lessor intends to expand the sports activity among youth in the area of the multi-purpose sports complex as a way to support its goals in terms of youth from low-income households. By leasing out the sports complex to the Lessee, it would meet its policy objectives. The lease payments at market rates for a similar multi-purpose sports complex are CU150,000. However, the Lessee does not have the financial capacity to pay the lease payments, and pay, at the same time, the costs of managing such a large facility. The Lessor and Lessee ended up signing up the lease contract for CU45,000 per month because the Lessee was the right partner to achieve the Lessor's goals.

The CU105,000 per month reduction is a lease concession at inception and at commencement dates.

Leases of Low-Value Assets and Portfolio Application (see paragraphs 6–7, AG1 and AG4–AG9)

IE3. The following example illustrates how a lessee might (a) apply paragraphs AG4–AG9 of IPSAS 43 to leases of low-value assets; and (b) determine portfolios of leases to which it would apply the requirements in IPSAS 43.

Example 11–Leases of Low-Value Assets and Portfolio Application

A public sector entity (Lessee) with offices in each province/state of the country has the following leases:

(a) Leases of real estate (both office buildings and warehouses).

(b) Leases of hospital equipment.

(c) Leases of cars, both for services personnel and senior management and of varying quality, specification and value.

(d) Leases of trucks and vans used for service delivery purposes, of varying size and value.

(e) Leases of IT equipment for use by individual employees (such as laptop computers, desktop computers, hand held computer devices, desktop printers and mobile phones).

(f) Leases of servers, including many individual modules that increase the storage capacity of those servers. The modules have been added to the mainframe servers over time as Lessee has needed to increase the storage capacity of the servers.

(g) Leases of office equipment:

(i) Office furniture (such as chairs, desks and office partitions);

(ii) Water dispensers; and

(iii) High-capacity multifunction photocopier devices.

Leases of low-value assets

Lessee determines that the following leases qualify as leases of low-value assets on the basis that the underlying assets, when new, are individually of low value:

(a) Leases of IT equipment for use by individual employees; and

(b) Leases of office furniture and water dispensers.

Lessee elects to apply the requirements in paragraph 7 of IPSAS 43 in accounting for all of those leases.

Although each module within the servers, if considered individually, might be an asset of low value, the leases of modules within the servers do not qualify as leases of low-value assets. This is because each module is highly interrelated with other parts of the servers. Lessee would not lease the modules without also leasing the servers.

Portfolio application

As a result, Lessee applies the recognition and measurement requirements in IPSAS 43 to its leases of real estate, hospital equipment, cars, trucks and vans, servers and high-capacity multifunction photocopier devices. In doing so, Lessee groups its cars, trucks and vans into portfolios.

Lessee's cars are leased under a series of master lease agreements. Lessee uses eight different types of car, which vary by price and are assigned to staff on the basis of seniority and territory. Lessee has a master lease agreement for each different type of car. The individual leases within each master lease agreement are all similar (including similar start and end dates), but the terms and conditions generally vary from one master lease agreement to another. Because the individual leases within each master lease agreement are similar to each other, Lessee reasonably expects that applying the requirements of IPSAS 43 to each master lease agreement would not result in a materially different effect than applying the requirements of IPSAS 43 to each individual lease within the master lease agreement. Consequently, Lessee concludes that it can apply the requirements of IPSAS 43 to each master lease agreement as a portfolio. In addition, Lessee concludes that two of the eight master lease agreements are similar and cover substantially similar types of cars in similar territories. Lessee reasonably expects that the effect of applying IPSAS 43 to the combined portfolio of leases within the two master lease agreements would not differ materially from applying IPSAS 43 to each lease within that combined portfolio. Lessee, therefore, concludes that it can further combine those two master lease agreements into a single lease portfolio.

Lessee's trucks and vans are leased under individual lease agreements. There are 6,500 leases in total. All of the truck leases have similar terms, as do all of the van leases. The truck leases are generally for four years and involve similar models of truck. The van leases are generally for five years and involve similar models of van. Lessee reasonably expects that applying the requirements of IPSAS 43 to portfolios of truck leases and van leases, grouped by type of underlying asset, territory and the quarter of the year within which the lease was entered into, would not result in a materially different effect from applying those requirements to each individual truck or van lease. Consequently, Lessee applies the requirements of IPSAS 43 to different portfolios of truck and van leases, rather than to 6,500 individual leases.

Allocating Consideration to Components of a Contract (see paragraphs 13–17 and AG33–AG34)

IE4. The following example illustrates the allocation of consideration in a contract to lease and non-lease components by a lessee.

Example 12–Lessee allocation of consideration to lease and non-lease components of a contract

Lessor leases a server, a medical ventilator and a computed tomography machine to Lessee to be used in Lessee's hospital operations for four years. Lessor also agrees to maintain each item of equipment throughout the lease term. The total consideration in the contract is CU600,000[(a)], payable in annual instalments of CU150,000, and a variable amount that depends on the hours of work performed in maintaining the computed tomography machine. The variable payment is capped at 2 per cent of the replacement cost of the computed tomography machine. The consideration includes the cost of maintenance services for each item of equipment.

Lessee accounts for the non-lease components (maintenance services) separately from each lease of equipment applying paragraph 13 of IPSAS 43. Lessee does not elect the practical expedient in paragraph 16 of IPSAS 43. Lessee considers the requirements in paragraph AG33 of IPSAS 43 and concludes that the lease of the server, the lease of the *medical ventilator* and the lease of the *computed tomography machine* are each separate lease components. This is because:

(a) Lessee can benefit from use of each of the three items of equipment on its own or together with other readily available resources (for example, Lessee could readily lease or purchase an alternative medical ventilator or computed tomography machine to use in its operations); and

(b) Although Lessee is leasing all three items of equipment for one purpose (i.e., to engage in hospital operations), the machines are neither highly dependent on, nor highly interrelated with, each other. Lessee's ability to derive benefit from the lease of each item of equipment is not significantly affected by its decision to lease, or not lease, the other equipment from Lessor.

Consequently, Lessee concludes that there are three lease components and three non-lease components (maintenance services) in the contract. Lessee applies the guidance in paragraphs 14–15 of IPSAS 43 to allocate the consideration in the contract to the three lease components and the non-lease components.

Several suppliers provide maintenance services for a similar server and a similar medical ventilator. Accordingly, there are observable standalone prices for the maintenance services for those two items of leased equipment. Lessee is able to establish observable stand-alone prices for the maintenance of the server and the medical ventilator of CU32,000 and CU16,000, respectively, assuming similar payment terms to those in the contract with Lessor. The computed tomography machine is highly specialized and, accordingly, other suppliers do not lease or provide maintenance services for similar computed tomography machines. Nonetheless, Lessor provides four-year maintenance service contracts to customers that purchase similar computed tomography machine from Lessor. The observable consideration for those four-year maintenance service contracts is a fixed amount of CU56,000, payable over four years, and a variable amount that depends on the hours of work performed in maintaining the computed tomography machine. That variable payment is capped at 2 per cent of the replacement cost of the computed tomography machine. Consequently, Lessee estimates the stand-alone price of the maintenance services for the computed tomography machine to be CU56,000 plus any variable amounts. Lessee is able to establish observable stand-alone prices for the leases of the server, the desktop computer and the computed tomography machine of CU170,000, CU102,000 and CU224,000, respectively.

Lessee allocates the fixed consideration in the contract (CU600,000) to the lease and non-lease components as follows:

CU	**Server**	**Medical ventilator**	**Computed tomography machine**	**Total**
Lease	170.000	102.000	224.000	**496.000**
Non-lease				**104.000**

Total fixed consideration				**600.000**

Lessee allocates all of the variable consideration to the maintenance of the *computed tomography machine*, and, thus, to the non-lease components of the contract. Lessee then accounts for each lease component applying the guidance in IPSAS 43, treating the allocated consideration as the lease payments for each lease component.

(a) In these Illustrative Examples, currency amounts are denominated in 'currency units' (CU).

Lessee Measurement (see paragraphs 19–42, AG35–AG42, and AG60–AG61)

IE5. The following example illustrates how a lessee measures right-of-use assets, lease liabilities, and concessionary leases. It also illustrates how a lessee accounts for a change in the lease term.

Example 13–Measurement by a Lessee and Accounting for a Change in the Lease Term

Part 1—Initial Measurement of the Right-of-Use Asset and the Lease Liability

Lessee enters into a 10-year lease of a floor of a building, with an option to extend for five years. Lease payments are CU50,000 per year during the initial term and CU55,000 per year during the optional period, all payable at the beginning of each year. To obtain the lease, Lessee incurs initial direct costs of CU20,000, of which CU15,000 relates to a payment to a former tenant occupying that floor of the building and CU5,000 relates to a commission paid to the real estate agent that arranged the lease. As an incentive to Lessee for entering into the lease, Lessor agrees to reimburse to Lessee the real estate commission of CU5,000.

At the commencement date, Lessee concludes that it is not reasonably certain to exercise the option to extend the lease and, therefore, determines that the lease term is 10 years.

The interest rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

At the commencement date, Lessee makes the lease payment for the first year, incurs initial direct costs, receives the lease incentive from Lessor and measures the lease liability at the present value of the remaining nine payments of CU50,000, discounted at the interest rate of 5 per cent per annum, which is CU355,391.

Lessee initially recognizes assets and liabilities in relation to the lease as follows.

Right-of-use asset	CU405,391		
Lease liability		CU355,391	
Cash (lease payment for the first year)			CU50,000
Right-of-use asset	CU20,000		
Cash (initial direct costs)		CU20,000	
Cash (lease incentive)	CU5,000		
Right-of-use asset		CU5,000	

Part 2—Subsequent Measurement and Accounting for a Change in the Lease Term

In the sixth year of the lease, Lessee acquires Entity A. Entity A has been leasing a floor in another building. The lease entered into by Entity A contains a termination option that is exercisable by Entity A. Following the acquisition of Entity A, Lessee needs two floors in a building suitable for the increased workforce. To minimize costs, Lessee (a) enters into a separate eight-year lease of another floor in the building leased that will be

available for use at the end of Year 7 and (b) terminates early the lease entered into by Entity A with effect from the beginning of Year 8.

Moving Entity A's staff to the same building occupied by Lessee creates an economic incentive for Lessee to extend its original lease at the end of the non-cancellable period of 10 years. The acquisition of Entity A and the relocation of Entity A's staff is a significant event that is within the control of Lessee and affects whether Lessee is reasonably certain to exercise the extension option not previously included in its determination of the lease term. This is because the original floor has greater utility (and thus provides greater benefits) to Lessee than alternative assets that could be leased for a similar amount to the lease payments for the optional period—Lessee would incur additional costs if it were to lease a similar floor in a different building because the workforce would be located in different buildings. Consequently, at the end of Year 6, Lessee concludes that it is now reasonably certain to exercise the option to extend its original lease as a result of its acquisition and planned relocation of Entity A.

Lessee's incremental borrowing rate at the end of Year 6 is 6 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a nine-year term, and with similar collateral. Lessee expects to consume the right-of-use asset's future economic benefits or service potential evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

The right-of-use asset and the lease liability from Year 1 to Year 6 are as follows.

	Lease liability				**Right-of-use asset**		
Year	**Beginning balance CU**	**Lease payment CU**	**5% interest expense CU**	**Ending balance CU**	**Beginning balance CU**	**Depreciation charge CU**	**Ending balance CU**
1	**355,391**	-	17,770	**373,161**	**420,391**	(42,039)	**378,352**
2	**373,161**	(50,000)	16,158	**339,319**	**378,352**	(42,039)	**336,313**
3	**339,319**	(50,000)	14,466	**303,785**	**336,313**	(42,039)	**294,274**
4	**303,785**	(50,000)	12,689	**266,474**	**294,274**	(42,039)	**252,235**
5	**266,474**	(50,000)	10,823	**227,297**	**252,235**	(42,039)	**210,196**
6	**227,297**	(50,000)	8,865	**186,162**	**210,196**	(42,039)	**168,157**

At the end of the sixth year, before accounting for the change in the lease term, the lease liability is CU186,162 (the present value of four remaining payments of CU50,000, discounted at the original interest rate of 5 per cent per annum). Interest expense of CU8,865 is recognized in Year 6. Lessee's right-of-use asset is CU168,157.

Lessee remeasures the lease liability at the present value of four payments of CU50,000 followed by five payments of CU55,000, all discounted at the revised discount rate of 6 per cent per annum, which is CU378,174. Lessee increases the lease liability by CU192,012, which represents the difference between the remeasured liability of CU378,174 and its previous carrying amount of CU186,162. The corresponding adjustment is made to the right-of-use asset to reflect the cost of the additional right of use, recognized as follows.

Right-of-use asset	CU192,012	
Lease liability		CU192,012

Following the remeasurement, the carrying amount of Lessee's right-of-use asset is CU360,169 (i.e., CU168,157 + CU192,012). From the beginning of Year 7 Lessee calculates the interest expense on the lease liability at the revised discount rate of 6 per cent per annum.

The right-of-use asset and the lease liability from Year 7 to Year 15 are as follows.

	Lease liability				Right-of-use asset		
Year	Beginning balance CU	Lease payment CU	6% interest expense CU	Ending balance CU	Beginning balance CU	Depreciation charge CU	Ending balance CU
7	**378,174**	(50,000)	19,690	**347,864**	**360,169**	(40,019)	**320,150**
8	**347,864**	(50,000)	17,872	**315,736**	**320,150**	(40,019)	**280,131**
9	**315,736**	(50,000)	15,944	**281,680**	**280,131**	(40,019)	**240,112**
10	**281,680**	(50,000)	13,901	**245,581**	**240,112**	(40,019)	**200,093**
11	**245,581**	(55,000)	11,435	**202,016**	**200,093**	(40,019)	**160,074**
12	**202,016**	(55,000)	8,821	**155,837**	**160,074**	(40,019)	**120,055**
13	**155,837**	(55,000)	6,050	**106,887**	**120,055**	(40,019)	**80,036**
14	**106,887**	(55,000)	3,113	**55,000**	**80,036**	(40,018)	**40,018**
15	**55,000**	(55,000)	-	**-**	**40,018**	(40,018)	**-**

Example 13A–Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates

Public sector not-for-profit entity X (Lessee) enters into a lease with Municipality Y (Lessor) to use a building to provide medical services to the population over a period of five years. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- *The lease stipulates that the lease should be paid over the five-year period as follows:*

  Year 1: CU3,718,694

  Year 2: CU3,718,694

  Year 3: CU3,718,694

  Year 4: CU3,718,694

  Year 5: CU3,718,694

  This represents an agreed reduction of 30% to the lease payments at market rates. The lessee's incremental borrowing rate is 5 percent per annum which is readily determinable by the lessee.

- *The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for five years. To the extent the compliance obligation is not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The compliance obligation is met on a straight-line basis.*

- *Depreciation of the right-of-use asset is not considered in the example for simplification purposes.*

Analysis

It is a concessionary lease, as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The lessee has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates–see Table 1 below–and the present value of the contractual

payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The concession component of CU6,900,000 is accounted for in accordance with IPSAS 47, and the present value of annual contractual payments of CU16,100,000 in accordance with this Standard.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the lessee recognizes the following (the lessee subsequently measures the lease liability at amortized cost):

Dr	Right-of-use asset	CU23,000,000		
Cr	Lease liability (refer to Table 1 below)			CU16,100,00
Cr	Liability (refer to Table 1 below)			CU6,900,000

Recognition of the lease at the present value of payments for the lease at market rates based on the current use of the asset.

IPSAS 47 is considered in recognizing either a liability or revenue for the concession component of the lease. Paragraph IE308 of that Standard provides journal entries for the recognition and measurement of the concession component of the lease.

2. Year 1: The lessee recognizes the following:

Dr	Interest expense (refer to Table 2 below)	CU805,000	
Cr	Lease liability		CU805,000

Recognition of interest using the effective interest method (CU16,100,000 × 5%)

Dr	Lease liability (refer to Table 2 below)	CU3,718,694	
Cr	Bank		CU3,718,694

Recognition of lease payment

3. Year 2: The lessee recognizes the following:

Dr	Interest expense	CU659,315	
Cr	Lease liability		CU659,315

Recognition of interest using the effective interest method (CU13,186,306 × 5%)

Dr	Lease liability	CU3,718,694	
Cr	Bank		CU3,718,694

Recognition of lease payment

4. Year 3: The lessee recognizes the following:

Dr	Interest expense	CU506,346	
Cr	Lease liability		CU506,346

Recognition of interest using the effective interest method (CU10,126,927 × 5%)

Dr	Lease liability		CU3,718,694	
Cr	Bank			CU3,718,694

Recognition of lease payment

5. Year 4: The lessee recognizes the following:

Dr	Interest expense		CU345,729	
Cr	Lease liability			CU345,729

Recognition of interest using the effective interest method (CU6,914,579 × 5%)

Dr	Lease liability		CU3,718,694	
Cr	Bank			CU3,718,694

Recognition of lease payment

6. Year 5: The lessee recognizes the following:

Dr	Interest expense		CU177,081	
Cr	Lease liability			CU177,081

Recognition of interest using the effective interest method (CU3,541,614 × 5%)

Dr	Lease liability		CU3,718,694	
Cr	Bank			CU3,718,694

Recognition of lease payment

Calculations:

Table 1: Annual Payments (Using Market Interest Rate at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	Present Value of Payments for the Lease at Market Rates	Undiscounted Annual Contractual Payments	Present Value of Annual Contractual Payments	Concession component of the lease to be recognized as revenue
	(1)	(2)	(3)	(4)	5=(2)-(4)
Year 1	5,312,420	5,059,448	3,718,694	3,541,614	1,517,834
Year 2	5,312,420	4,818,522	3,718,694	3,372,965	1,445,557
Year 3	5,312,420	4,589,068	3,718,694	3,212,348	1,376,721
Year 4	5,312,420	4,370,541	3,718,694	3,059,379	1,311,162
Year 5	5,312,420	4,162,421	3,718,694	2,913,694	1,248,726
Total	**26,562,100**	**23,000,000**	**18,593,470**	**16,100,000**	**6,900,000**

Table 2: Calculation of Lease Liability Balance and Interest Using the Effective Interest Rate

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Total
Beginning balance	**16,100,000**	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	
Interest expense	805,000	659,315	506,346	345,729	177,081	2,493,471
Contractual payments	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	
Ending balance	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	**0**	

Right-of-use asset	23,000,000
Less: Present value of cash outflows (lease liability on initial recognition)	16,100,000
Concession component of the lease to be recognized as revenue over five years.	6,900,000

Variable Lease Payments (see paragraphs 28, 40, 43(b) and 44)

IE6. The following example illustrates how a lessee accounts for variable lease payments that depend on an index and variable lease payments not included in the measurement of the lease liability.

Example 14–Variable Lease Payments Dependent on an Index and Variable Lease Payments Linked to Sales

Example 14A—Lessee enters into a 10-year lease of property with annual lease payments of CU50,000, payable at the beginning of each year. The contract specifies that lease payments will increase every two years on the basis of the increase in the Consumer Price Index for the preceding 24 months. The Consumer Price Index at the commencement date is 125. This example ignores any initial direct costs. The rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

At the commencement date, Lessee makes the lease payment for the first year and measures the lease liability at the present value of the remaining nine payments of CU50,000, discounted at the interest rate of 5 per cent per annum, which is CU355,391.

Lessee initially recognizes assets and liabilities in relation to the lease as follows.

Right-of-use asset	CU405,391	
Lease liability		CU355,391
Cash (lease payment for the first year)		CU50,000

Lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

During the first two years of the lease, Lessee recognizes in aggregate the following related to the lease.

Interest expense	CU33,928	
Lease liability		CU33,928
Depreciation charge	CU81,078 (CU405,391 ÷ 10 × 2 years)	
Right-of-use asset		CU81,078

At the beginning of the second year, Lessee makes the lease payment for the second year and recognizes the following.

Lease liability	CU50,000	
Cash		CU50,000

At the beginning of the third year, before accounting for the change in future lease payments resulting from a change in the Consumer Price Index and making the lease payment for the third year, the lease liability is CU339,319 (the present value of eight payments of CU50,000 discounted at the interest rate of 5 per cent per annum = CU355,391 + CU33,928 – CU50,000).

At the beginning of the third year of the lease the Consumer Price Index is 135.

The payment for the third year, adjusted for the Consumer Price Index, is CU54,000 (CU50,000 × 135 ÷ 125). Because there is a change in the future lease payments resulting from a change in the Consumer Price Index used to determine those payments, Lessee remeasures the lease liability to reflect those revised lease payments, i.e., the lease liability now reflects eight annual lease payments of CU54,000.

At the beginning of the third year, Lessee remeasures the lease liability at the present value of eight payments of CU54,000 discounted at an unchanged discount rate of 5 per cent per annum, which is CU366,464. Lessee increases the lease liability by CU27,145, which represents the difference between the remeasured liability of CU366,464 and its previous carrying amount of CU339,319. The corresponding adjustment is made to the right-of-use asset, recognized as follows.

Right-of-use asset	CU27,145	
Lease liability		CU27,145

At the beginning of the third year, Lessee makes the lease payment for the third year and recognizes the following.

Lease liability	CU54,000	
Cash		CU54,000

Example 14B—Assume the same facts as Example 14A except that Lessee is also required to make variable lease payments for each year of the lease, which are determined as 1 per cent of Lessee's sales generated from the leased property.

At the commencement date, Lessee measures the right-of-use asset and the lease liability recognized at the same amounts as in Example 14A. This is because the additional variable lease payments are linked to future sales and, thus, do not meet the definition of lease payments. Consequently, those payments are not included in the measurement of the asset and liability.

Right-of-use asset	CU405,391	
Lease liability		CU355,391
Cash (lease payment for the first year)		CU50,000

Lessee prepares financial statements on an annual basis. During the first year of the lease, Lessee generates sales of CU800,000 from the leased property.

Lessee incurs an additional expense related to the lease of CU8,000 (CU800,000 × 1 per cent), which Lessee recognizes in surplus or deficit in the first year of the lease.

Lease Modifications (see paragraphs 45–47)

IE7. Examples 15–19 illustrate the requirements of IPSAS 43 regarding lease modifications for a lessee.

Example 15–Modification that is a Separate Lease

Lessee enters into a 10-year lease for 2,000 square meters of office space. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease for the remaining five years to include an additional 3,000 square meters of office space in the same building. The additional space is made available for use by

Lessee at the end of the second quarter of Year 6. The increase in total consideration for the lease is commensurate with the current market rate for the new 3,000 square meters of office space, adjusted for the discount that Lessee receives reflecting that Lessor does not incur costs that it would otherwise have incurred if leasing the same space to a new tenant (for example, marketing costs).

Lessee accounts for the modification as a separate lease, separate from the original 10-year lease. This is because the modification grants Lessee an additional right to use an underlying asset, and the increase in consideration for the lease is commensurate with the stand-alone price of the additional right-of-use adjusted to reflect the circumstances of the contract. In this example, the additional underlying asset is the new 3,000 square meters of office space. Accordingly, at the commencement date of the new lease (at the end of the second quarter of Year 6), Lessee recognizes a right-of-use asset and a lease liability relating to the lease of the additional 3,000 square meters of office space. Lessee does not make any adjustments to the accounting for the original lease of 2,000 square meters of office space as a result of this modification.

Example 16–Modification that Increases the Scope of the Lease by Extending the Contractual Lease Term

Lessee enters into a 10-year lease for 5,000 square meters of office space. The annual lease payments are CU100,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. At the beginning of Year 7, Lessee and Lessor agree to amend the original lease by extending the contractual lease term by four years. The annual lease payments are unchanged (i.e., CU100,000 payable at the end of each year from Year 7 to Year 14). Lessee's incremental borrowing rate at the beginning of Year 7 is 7 per cent per annum.

At the effective date of the modification (at the beginning of Year 7), Lessee remeasures the lease liability based on: (a) an eight-year remaining lease term, (b) annual payments of CU100,000 and (c) Lessee's incremental borrowing rate of 7 per cent per annum. The modified lease liability equals CU597,130. The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is CU346,511. Lessee recognizes the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (CU250,619) as an adjustment to the right-of-use asset.

Example 17–Modification that Decreases the Scope of the Lease

Lessee enters into a 10-year lease for 5,000 square meters of office space. The annual lease payments are CU50,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to reduce the space to only 2,500 square meters of the original space starting from the end of the first quarter of Year 6. The annual fixed lease payments (from Year 6 to Year 10) are CU30,000. Lessee's incremental borrowing rate at the beginning of Year 6 is 5 per cent per annum.

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on: (a) a five-year remaining lease term, (b) annual payments of CU30,000 and (c) Lessee's incremental borrowing rate of 5 per cent per annum. This equals CU129,884.

Lessee determines the proportionate decrease in the carrying amount of the right-of-use asset on the basis of the remaining right-of-use asset (i.e., 2,500 square meters corresponding to 50 per cent of the original right-of-use asset).

50 per cent of the pre-modification right-of-use asset (CU184,002) is CU92,001. Fifty per cent of the pre-modification lease liability (CU210,618) is CU105,309. Consequently, Lessee reduces the carrying amount of the right-of-use asset by CU92,001 and the carrying amount of the lease liability by CU105,309. Lessee

recognizes the difference between the decrease in the lease liability and the decrease in the right-of-use asset (CU105,309 – CU92,001 = CU13,308) as a gain in surplus or deficit at the effective date of the modification (at the beginning of Year 6).

Lessee recognizes the difference between the remaining lease liability of CU105,309 and the modified lease liability of CU129,884 (which equals CU24,575) as an adjustment to the right-of-use asset reflecting the change in the consideration paid for the lease and the revised discount rate.

Example 18–Modification that Both Increases and Decreases the Scope of the Lease

Lessee enters into a 10-year lease for 2,000 square meters of office space. The annual lease payments are CU100,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to (a) include an additional 1,500 square meters of space in the same building starting from the beginning of Year 6 and (b) reduce the lease term from 10 years to eight years. The annual fixed payment for the 3,500 square meters is CU150,000 payable at the end of each year (from Year 6 to Year 8). Lessee's incremental borrowing rate at the beginning of Year 6 is 7 per cent per annum.

The consideration for the increase in scope of 1,500 square meters of space is not commensurate with the stand-alone price for that increase adjusted to reflect the circumstances of the contract. Consequently, Lessee does not account for the increase in scope that adds the right to use an additional 1,500 square meters of space as a separate lease.

The pre-modification right-of-use asset and the pre-modification lease liability in relation to the lease are as follows.

	Lease liability				**Right-of-use asset**		
	Beginning balance	**6% interest expense**	**Lease payment**	**Ending balance**	**Beginning balance**	**Depreciation charge**	**Ending balance**
Year	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**
1	**736,009**	44,160	(100,000)	**680,169**	**736,009**	(73,601)	**662,408**
2	**680,169**	40,810	(100,000)	**620,979**	**662,408**	(73,601)	**588,807**
3	**620,979**	37,259	(100,000)	**558,238**	**588,807**	(73,601)	**515,206**
4	**558,238**	33,494	(100,000)	**491,732**	**515,206**	(73,601)	**441,605**
5	**491,732**	29,504	(100,000)	**421,236**	**441,605**	(73,601)	**368,004**
6	**421,236**				**368,004**		

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability on the basis of: (a) a three-year remaining lease term, (b) annual payments of CU150,000 and (c) Lessee's incremental borrowing rate of 7 per cent per annum. The modified liability equals CU393,647, of which (a) CU131,216 relates to the increase of CU50,000 in the annual lease payments from Year 6 to Year 8 and (b) CU262,431 relates to the remaining three annual lease payments of CU100,000 from Year 6 to Year 8.

Decrease in the lease term

At the effective date of the modification (at the beginning of Year 6), the pre-modification right-of-use asset is CU368,004. Lessee determines the proportionate decrease in the carrying amount of the right-of-use asset based on the remaining right-of-use asset for the original 2,000 square meters of office space (i.e., a

remaining three-year lease term rather than the original five-year lease term). The remaining right-of-use asset for the original 2,000 square meters of office space is CU220,802 (i.e., CU368,004 ÷ 5 × 3 years).

At the effective date of the modification (at the beginning of Year 6), the pre-modification lease liability is CU421,236. The remaining lease liability for the original 2,000 square meters of office space is CU267,301 (i.e., present value of three annual lease payments of CU100,000, discounted at the original discount rate of 6 per cent per annum).

Consequently, Lessee reduces the carrying amount of the right-of-use asset by CU147,202 (CU368,004 – CU220,802), and the carrying amount of the lease liability by CU153,935 (CU421,236 – CU267,301). Lessee recognizes the difference between the decrease in the lease liability and the decrease in the right-of-use asset (CU153,935 – CU147,202 = CU6,733) as a gain in surplus or deficit at the effective date of the modification (at the beginning of Year 6).

Lease liability	CU153,935	
Right-of-use asset		CU147,202
Gain		CU6,733

At the effective date of the modification (at the beginning of Year 6), Lessee recognizes the effect of the remeasurement of the remaining lease liability reflecting the revised discount rate of 7 per cent per annum, which is CU4,870 (CU267,301 – CU262,431), as an adjustment to the right-of-use asset.

Lease liability	CU4,870	
Right-of-use asset		CU4,870

Increase in the leased space

At the commencement date of the lease for the additional 1,500 square meters of space (at the beginning of Year 6), Lessee recognizes the increase in the lease liability related to the increase in scope of CU131,216 (i.e., present value of three annual lease payments of CU50,000, discounted at the revised interest rate of 7 per cent per annum) as an adjustment to the right-of-use asset.

Right-of-use asset	CU131,216	
Lease liability		CU131,216

The modified right-of-use asset and the modified lease liability in relation to the modified lease are as follows.

	Lease liability				**Right-of-use asset**		
	Beginning balance	**7% interest expense**	**Lease payment**	**Ending balance**	**Beginning balance**	**Depreciation charge**	**Ending balance**
Year	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**
6	**393,647**	27,556	(150,000)	**271,203**	**347,148**	(115,716)	**231,432**
7	**271,203**	18,984	(150,000)	**140,187**	**231,432**	(115,716)	**115,716**
8	**140,187**	9,813	(150,000)	**-**	**115,716**	(115,716)	**-**

Example 19–Modification that is a Change in Consideration Only

Lessee enters into a 10-year lease for 5,000 square meters of office space. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease for the remaining five years to reduce the lease payments from CU100,000 per year to CU95,000 per year. The interest rate implicit in the lease cannot be

readily determined. Lessee's incremental borrowing rate at the commencement date is 6 per cent per annum. Lessee's incremental borrowing rate at the beginning of Year 6 is 7 per cent per annum. The annual lease payments are payable at the end of each year.

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on: (a) a five-year remaining lease term, (b) annual payments of CU95,000 and (c) Lessee's incremental borrowing rate of 7 per cent per annum. Lessee recognizes the difference between the carrying amount of the modified liability (CU389,519) and the lease liability immediately before the modification (CU421,236) of CU31,717 as an adjustment to the right-of-use asset.

Subleases (see paragraph AG59)

IE8. Examples 20–21 illustrate the application of the requirements in IPSAS 43 for an intermediate lessor that enters into a head lease and a sublease of the same underlying asset.

Example 20–Sublease Classified as a Finance Lease

Head lease—An intermediate lessor enters into a five-year lease for 5,000 square meters of office space (the head lease) with Entity A (the head lessor).

Sublease—At the beginning of Year 3, the intermediate lessor subleases the 5,000 square meters of office space for the remaining three years of the head lease to a sublessee.

The intermediate lessor classifies the sublease by reference to the right-of-use asset arising from the head lease. The intermediate lessor classifies the sublease as a finance lease, having considered the requirements in paragraphs 65–70 of IPSAS 43.

When the intermediate lessor enters into the sublease, the intermediate lessor:

(a) Derecognizes the right-of-use asset relating to the head lease that it transfers to the sublessee and recognizes the net investment in the sublease;

(b) Recognizes any difference between the right-of-use asset and the net investment in the sublease in surplus or deficit; and

(c) Retains the lease liability relating to the head lease in its statement of financial position, which represents the lease payments owed to the head lessor.

During the term of the sublease, the intermediate lessor recognizes both finance revenue on the sublease and interest expense on the head lease (Entity A).

Example 21—Sublease Classified as Operating Lease

Head lease—An intermediate lessor enters into a five-year lease for 5,000 square meters of office space (the head lease) with Entity A (the head lessor).

Sublease—At commencement of the head lease, the intermediate lessor subleases the 5,000 square meters of office space for two years to a sublessee.

The intermediate lessor classifies the sublease by reference to the right-of-use asset arising from the head lease. The intermediate lessor classifies the sublease as an operating lease, having considered the requirements in paragraphs 65–70 of IPSAS 43.

When the intermediate lessor enters into the sublease, the intermediate lessor retains the lease liability and the right-of-use asset relating to the head lease in its statement of financial position.

During the term of the sublease, the intermediate lessor:

(a) Recognizes a depreciation charge for the right-of-use asset and interest on the lease liability; and

(b) Recognizes lease revenue from the sublease.

Lessee Disclosure (see paragraphs 62 and AG50–AG51)

IE9. Example 22 illustrates how a lessee with different types of lease portfolios might comply with the disclosure requirements described in paragraphs 62 and AG50 of IPSAS 43 about variable lease payments. This example shows only current period information. IPSAS 1, *Presentation of Financial Statements* requires an entity to present comparative information.

Example 22–Variable Payment Terms

Lessee with a High Volume of Leases with Some Consistent Payment Terms

Example 22A: City XYZ (Lessee) operates four tourism outlets selling touristic merchandise about the city—A, B, C and D. Lessee has a high volume of property leases. Lessee's policy is to negotiate variable payment terms for newly established tourism outlets. Lessee concludes that information about variable lease payments is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that information about the proportion of total lease payments that arise from variable payments, and the sensitivity of those variable lease payments to changes in sales, is the information that is relevant to users of its financial statements. This information is similar to that reported to Lessee's senior management about variable lease payments.

Some of the property leases within the city contain variable payment terms that are linked to sales generated from the tourism outlet. Variable payment terms are used, when possible, in newly established tourism outlets in order to link rental payments to tourism outlet cash flows and minimize fixed costs. Fixed and variable rental payments by tourism outlet for the period ended 31 December 20X0 are summarized below.

	Tourism outlet	Fixed payments	Variable payments	Total payments	Estimated annual impact on total tourism outlet rent of a 1% increase in sales
	No.	CU	CU	CU	%
A	4,522	3,854	120	3,974	0.03%
B	965	865	105	970	0.11%
C	124	26	163	189	0.86%
D	652	152	444	596	0.74%
	6,263	**4,897**	**832**	**5,729**	**0.15%**

Refer to the management commentary for tourism outlet information presented on a like-for-like basis and to Note X for segmental information applying IPSAS 18, *Segment Reporting* relating to Tourism Outlets A–D.

Example 22B: City XYZ (Lessee) has a high volume of property leases of tourism outlets selling touristic merchandise about the city. Many of these leases contain variable payment terms linked to sales from the store. Lessee's group policy sets out the circumstances in which variable payment terms are used and all lease negotiations must be approved centrally. Lease payments are monitored centrally. Lessee concludes that information about variable lease payments is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that information about the different types of contractual terms it uses with respect to variable lease payments, the effect of those terms on its financial performance and the sensitivity of variable lease payments to changes in sales is the

information that is relevant to users of its financial statements. This is similar to the information that is reported to Lessee's senior management about variable lease payments.

Many of the property leases within City XYZ contain variable payment terms that are linked to the volume of sales made from leased tourism outlets. These terms are used, when possible, in order to match lease payments with tourism outlets generating higher cash flows. For individual tourism outlets, up to 100 per cent of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. In some cases, variable payment terms also contain minimum annual payments and caps.

Lease payments and terms for the period ended 31 December 20X0 are summarized below.

	Tourism outlets	**Fixed payments**	**Variable payments**	**Total payments**
	No.	**CU**	**CU**	**CU**
Fixed rent only	1,490	1,153	-	1,153
Variable rent with no -minimum	986	-	562	562
Variable rent with minimum	3,089	1,091	1,435	2,526
	5,565	**2,244**	**1,997**	**4,241**

A 1 per cent increase in sales across all tourism outlets in the public sector entity would be expected to increase total lease payments by approximately 0.6–0.7 per cent. A 5 per cent increase in sales across all tourism outlets in the public sector entity would be expected to increase total lease payments by approximately 2.6–2.8 per cent.

Lessee with a High Volume of Leases with a Wide Range of Different Payment Terms

Example 22C: City XYZ (Lessee) has a high volume of property leases of tourism outlets selling touristic merchandise about the city. These leases contain a wide range of different variable payment terms. Lease terms are negotiated and monitored by local management. Lessee concludes that information about variable lease payments is relevant to users of its financial statements and is not available elsewhere in its financial statements. Lessee concludes that information about how its property lease portfolio is managed is the information that is relevant to users of its financial statements. Lessee also concludes that information about the expected level of variable lease payments in the coming year (similar to that reported internally to senior management) is also relevant to users of its financial statements.

Many of the property leases within the city contain variable payment terms. Local management are responsible for store margins. Accordingly, lease terms are negotiated by local management and contain a wide range of payment terms. Variable payment terms are used for a variety of reasons, including minimising the fixed cost base for newly established tourism outlets or for reasons of margin control and operational flexibility. Variable lease payment terms vary widely across the city:

(a) The majority of variable payment terms are based on a range of percentages of tourism outlet sales;

(b) Lease payments based on variable terms range from 0–20 per cent of total lease payments on an individual property; and

(c) Some variable payment terms include minimum or cap clauses.

The overall financial effect of using variable payment terms is that higher rental costs are incurred by tourism outlet with higher sales. This facilitates the management of margins across the city's tourism outlets.

Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

IE10. Example 23 illustrates how a lessee with different types of lease portfolios might comply with the disclosure requirements described in paragraphs 62 and AG51 of IPSAS 43 about extension options and termination options. This example shows only current period information. IPSAS 1 requires an entity to present comparative information.

Example 23–Extension Options and Termination Options

Lessee with a High Volume of Leases, that Have a Wide Range of Different Terms and Conditions, which are not Managed Centrally

Example 23A: Lessee has a high volume of equipment leases with a wide range of different terms and conditions. Lease terms are negotiated and monitored by local management. Lessee concludes that information about how it manages the use of termination and extension options is the information that is relevant to users of its financial statements and is not available elsewhere in its financial statements. Lessee also concludes that information about (a) the financial effect of reassessing options and (b) the proportion of its short-term lease portfolio resulting from leases with annual break clauses is also relevant to users of its financial statements.

Extension and termination options are included in a number of equipment leases across the economic entity. Local teams are responsible for managing their leases and, accordingly, lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Extension and termination options are included, when possible, to provide local management with greater flexibility to align its need for access to equipment with the fulfilment of customer contracts. The individual terms and conditions used vary across the economic entity.

The majority of extension and termination options held are exercisable only by Lessee and not by the respective lessors. In cases in which Lessee is not reasonably certain to use an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

During 20X0, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognized lease liabilities of CU489.

In addition, Lessee has a number of lease arrangements containing annual break clauses at no penalty. These leases are classified as short-term leases and are not included within lease liabilities. The short-term lease expense of CU30 recognized during 20X0 included CU27 relating to leases with an annual break clause.

Lessee with a High Volume of Leases with Some Consistent Terms and Options

Example 23B: City XYZ (Lessee) has a high volume of property leases containing penalty free termination options that are exercisable at the option of Lessee. Lessee's policy is to have termination options in leases of more than five years, whenever possible. Lessee has a central property team that negotiates leases. Lessee concludes that information about termination options is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that information about (a) the potential exposure to future lease payments that are not included in the measurement of lease liabilities and (b) the proportion of termination options that have been exercised historically is the information that is relevant to users of its financial statements. Lessee also notes that presenting this information on the basis of the same operation for which segment information is disclosed applying IPSAS 18 is relevant to

users of its financial statements. This is similar to the information that is reported to Lessee's senior management about termination options.

Many of the property leases across the city contain termination options. These options are used to limit the period to which the city is committed to individual lease contracts and to maximize operational flexibility in terms of opening and closing individual offices. For most leases of offices, recognized lease liabilities do not include potential future rental payments after the exercise date of termination options because Lessee is not reasonably certain to extend the lease beyond that date. This is the case for most leases for which a longer lease period can be enforced only by Lessee and not by the landlord, and for which there is no penalty associated with the option.

Potential future rental payments relating to periods following the exercise date of termination options are summarized below.

Segment	Lease liabilities recognized (discounted)	Potential future lease payments not included in lease liabilities (undiscounted)		
		Payable during 20X1–20X5	Payable during 20X6–20Y0	Total
	CU	CU	CU	CU
Operation A	569	71	94	165
Operation B	2,455	968	594	1,562
Operation C	269	99	55	154
Operation D	1,002	230	180	410
Operation E	914	181	321	502
	5,209	**1,549**	**1,244**	**2,793**

The table below summarizes the rate of exercise of termination options during 20X0.

Segment	Termination option exercisable during 20X0	Termination option not exercised	Termination option exercised
	No. of leases	No. of leases	No. of leases
Operation A	33	30	3
Operation B	86	69	17
Operation C	19	18	1
Operation D	30	5	25
Operation E	66	40	26
	234	**162**	**72**

Example 23C: Lessee has a high volume of large equipment leases containing extension options that are exercisable by Lessee during the lease. Lessee's policy is to use extension options to align, when possible, committed lease terms for large equipment with the initial contractual term of associated customer contracts, whilst retaining flexibility to manage its large equipment and reallocate assets across contracts. Lessee concludes that information about extension options is relevant to users of its financial statements and is not available elsewhere in its financial statements. In particular, Lessee concludes that (a) information about the

potential exposure to future lease payments that are not included in the measurement of lease liabilities and (b) information about the historical rate of exercise of extension options is the information that is relevant to users of its financial statements. This is similar to the information that is reported to Lessee's senior management about extension options.

Many of the large equipment leases across the city contain extension options. These terms are used to maximize operational flexibility in terms of managing contracts. These terms are not reflected in measuring lease liabilities in many cases because the options are not reasonably certain to be exercised. This is generally the case when the underlying large equipment has not been allocated for use on a particular customer contract after the exercise date of an extension option. The table below summarizes potential future rental payments relating to periods following the exercise dates of extension options.

Segment	Lease liabilities recognized (discounted)	Potential future lease payments not included in lease liabilities (discounted)	Historical rate of exercise of extension options
	CU	CU	%
Operation A	569	799	52%
Operation B	2,455	269	69%
Operation C	269	99	75%
Operation D	1,002	111	41%
Operation E	914	312	76%
	5,209	**1,590**	**67%**

Lessor Measurement (see paragraphs 71A, 81A, AG60, and AG62)

IE10A. The following example illustrates how a lessor measures and accounts for concessionary leases.

Example 23A–Concessionary Operating Lease (Lessor)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates

Municipality Y (Lessor) enters into an operating lease with public sector not-for-profit entity X (Lessee) to use a building over a period of five years with the condition to use it for providing medical services to the population in general. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,000,000.

- *The agreement stipulates that the lease should be paid over the five-year period as follows:*

  Year 1: CU3,500,000

  Year 2: CU3,500,000

  Year 3: CU3,500,000

  Year 4: CU3,500,000

  Year 5: CU3,500,000

  This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by the lessee.

- *Depreciation of the underlying asset is not considered in the example because it is within the scope of other IPSAS.*
- *The annual expenses (depreciation and maintenance) of the building are CU4,200,000.*

Analysis

It is a concessionary lease, as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The concessionary operating lease has two distinct components:

(a) An exchange component—Representing the portion of the economic value created by the lease contract to be received by the lessor as future cash inflows in the form of lease payments and accounted for as revenue (CU3,500,000 per year); and

(b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU1,500,000 (CU5,000,000 – CU3,500,000)).

The contractual payments are accounted for in accordance with IPSAS 43.

The annual journal entries[1] to account for the concessionary lease are as follows:

Dr Cash	CU3,500,000	
Cr Lease revenue		CU3,500,000

[1] As revenue in an operating lease is recognized on either a straight-line basis or another systematic basis, there is no need to discount the lease payments.

Example 23B–Concessionary Finance Lease (Lessor)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates

Municipality Y (Lessor) enters into a finance lease with public sector not-for-profit entity X (Lessee) to use a building over a period of five years with the condition to use it for providing medical services to the population in general. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- *The agreement stipulates that the lease should be paid over the five-year period as follows:*

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by the lessor.

- *The carrying amount of the underlying asset is CU20,000,000.*
- *The residual value is CU0 (zero) for simplification purposes.*
- *The lease includes compliance obligations. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.*

Analysis

It is a concessionary finance lease, as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The concessionary finance lease has two distinct components:

(a) An exchange component—Representing the portion of the economic value created by the lease contract to be received by the lessor as future cash inflows in the form of lease payments and accounted for as the net investment in the lease (CU16,100,000); and

(b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU6,900,000 (CU23,000,000 – CU16,100,000)).

The journal entries to account for the concessionary finance lease are as follows:

1. On initial recognition, the lessor recognizes the following (the lessor subsequently measures the lease receivable (net investment in the lease) at amortized cost):

Dr		Lease receivable (refer to Table 1 below)	CU16,100,000	
Dr		Surplus or deficit	CU3,900,000	
	Cr	Derecognition of the underlying asset		CU20,000,00[(2)]

[(2)] Net of accumulated depreciation.

Recognition of the contractual payments for the lease and derecognition of the underlying asset.

2. Year 1: The lessor recognizes the following:

Dr		Lease receivable	CU805,000	
	Cr	Interest revenue (refer to Table 2 below)		CU805,000

Recognition of interest using the effective interest method (CU16,100,000 × 5%)

Dr		Bank	CU3,718,694	
	Cr	Lease receivable (refer to Table 2 below)		CU3,718,694

Recognition of lease payment

3. Year 2: The lessor recognizes the following:

Dr		Lease receivable	CU659,315	
	Cr	Interest revenue		CU659,315

Recognition of interest using the effective interest method (CU13,186,306 × 5%)

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

4. Year 3: The lessor recognizes the following:

Dr		Lease receivable	CU506,346	

	Cr	Interest revenue		CU506,346

Recognition of interest using the effective interest method (CU10,126,927 × 5%)

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

5. Year 4: The lessor recognizes the following:

Dr		Lease receivable	CU345,729	
	Cr	Interest revenue		CU345,729

Recognition of interest using the effective interest method (CU6,914,579 × 5%)

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

6. Year 5: The lessor recognizes the following:

Dr		Lease receivable	CU177,081	
	Cr	Interest revenue		CU177,081

Recognition of interest using the effective interest method (CU3,541,614 × 5%)

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

Calculations:

Table 1: Annual Payments (Using Market Interest Rate at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	Present Value of Payments for the Lease at Market Rates	Undiscounted Annual Contractual Payments	Present Value of Annual Contractual Payments
	(1)	(2)	(3)	(4)
Year 1	5,312,420	5,059,448	3,718,694	3,541,614
Year 2	5,312,420	4,818,522	3,718,694	3,372,965
Year 3	5,312,420	4,589,068	3,718,694	3,212,348
Year 4	5,312,420	4,370,541	3,718,694	3,059,379
Year 5	5,312,420	4,162,420	3,718,694	2,913,694
Total	**26,562,100**	**23,000,000**	**18,593,470**	**16,100,000**

Table 2: Calculation of Lease Receivable Balance and Interest Using the Effective Interest Rate

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Total
Beginning balance	**16,100,000**	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	
Interest revenue	805,000	659,315	506,346	345,729	177,081	2,493,471
Contractual payments	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	
Ending balance	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	**0**	

Carrying amount of the derecognized underlying asset	20,000,000
Less: Present value of cash inflows (lease receivable on initial recognition)	16,100,000
Loss component with concessionary finance lease.	3,900,000

Sale and Leaseback Transactions (see paragraphs 97–102)

IE11. Examples 24 and 25 illustrate the application of the requirements in paragraphs 98–101 of IPSAS 43 for a seller-lessee and a buyer-lessor.

Example 24–Sale and Leaseback Transaction with fixed payments and above-market terms

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IPSAS 47, Revenue to be accounted for as a sale of the building. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback.

The fair value of the building at the date of sale is CU1,800,000. Because the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer-lessor make adjustments to measure the sale proceeds at fair value. Applying paragraph 100(b) of IPSAS 43, the amount of the excess sale price of CU200,000 (CU2,000,000 – CU1,800,000) is recognized as additional financing provided by Buyer-lessor to Seller-lessee.

The interest rate implicit in the lease is 4.5 per cent per annum, which is readily determinable by Seller-lessee. The present value of the annual payments (18 payments of CU120,000, discounted at 4.5 per cent per annum) is CU1,459,200, of which CU200,000 relates to the additional financing and CU1,259,200 relates to the lease—corresponding to 18 annual payments of CU16,447 and CU103,553, respectively.

Seller-lessee

Applying paragraph 99(a) of IPSAS 43, at the commencement date Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU699,555. Seller-lessee calculates this amount as: CU1,000,000 (the carrying amount of the building) × CU1,259,200 (the discounted lease payments for the 18-year right-of-use asset) ÷ CU1,800,000 (the fair value of the building).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU240,355 calculated as follows. The gain on sale of the building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

(a) CU559,645 (CU800,000 × CU1,259,200 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and

(b) CU240,355 (CU800,000 × (CU1,800,000 – CU1,259,200) ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Cash	CU2,000,000	
Right-of-use asset	CU699,555	
Building		CU1,000,000
Lease liability		CU1,259,200
Financial liability		CU200,000
Gain on rights transferred		CU240,355

Buyer-lessor

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Building	CU1,800,000	
Financial asset	CU200,000 (18 payments of CU16,447, discounted at 4.5 per cent per annum)	
Cash		CU2,000,000

After the commencement date, Buyer-lessor accounts for the lease by treating CU103,553 of the annual payments of CU120,000 as lease payments. The remaining CU16,447 of annual payments received from Seller-lessee are accounted for as (a) payments received to settle the financial asset of CU200,000 and (b) interest revenue.

IE12. Example 25 illustrates the application of the requirements in paragraph 101A and paragraphs 30–47 of IPSAS 43 in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

Example 25–Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU1,800,000 (the fair value of the building at the date of sale). Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for five years. Lease payments—payable annually—comprise fixed payments and variable payments that do not depend on an index or rate.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IPSAS 47 to be accounted for as a sale of the building. Accordingly, Seller-lessee accounts for the transaction as a sale and leaseback.

The interest rate implicit in the lease cannot be readily determined. Seller-lessee's incremental borrowing rate is 3 percent per annum.

Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use it retains as 25 percent.[(a)] Consequently, at the commencement date Seller-lessee accounts for the transaction as follows.

Cash	*CU1,800,000*
Right-of-use asset (CU1,000,000 × 25 per cent)	*CU250,000*

Building	*CU1,000,000*
Lease liability	*CU450,000*
Gain on rights transferred ((CU1,800,000 – CU1,000,000) × 75 per cent)	*CU600,000*

Seller-lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

In measuring the lease liability applying paragraphs 37–47 of IPSAS 43, Seller-lessee develops an accounting policy for determining 'lease payments' in a way that it would not recognize any amount of the gain that relates to the right of use it retains. Depending on the circumstances (including the method Seller-lessee used—applying paragraph 99(a) of IPSAS 43—for determining the measurement of the right-of-use asset and the gain recognized on the transaction at the commencement date), either Approach 1 or Approach 2 could meet the requirements in paragraph 101A.

Approach 1—Expected lease payments at the commencement date

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect the expected lease payments at the commencement date that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at that date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

	Lease liability				Right-of-use asset		
Year	**Beginning balance**	**Lease payments[(b)]**	**3 percent interest expense[(c)]**	**Ending balance**	**Beginning balance**	**Depreciation charge**	**Ending balance**
	CU	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**
1	**450,000**	(95,902)	13,500	**367,598**	**250,000**	(50,000)	**200,000**
2	**367,598**	(98,124)	11,028	**280,502**	**200,000**	(50,000)	**150,000**
3	**280,502**	(99,243)	8,415	**189,674**	**150,000**	(50,000)	**100,000**
4	**189,674**	(100,101)	5,690	**95,263**	**100,000**	(50,000)	**50,000**
5	**95,263**	(98,121)	2,858	**0**	**50,000**	(50,000)	**0**

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognizes CU1,197 (CU99,321 – CU98,124) in surplus or deficit.

Approach 2—Equal lease payments over the lease term

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect equal periodic payments over the lease term that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at the commencement date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

Year	Lease liability				Right-of-use asset		
	Beginning balance	Lease payments[d]	3 percent interest expense[c]	Ending balance	Beginning balance	Depreciation charge	Ending balance
	CU	CU	CU	CU	CU	CU	CU
1	**450,000**	(98,260)	13,500	**365,240**	**250,000**	(50,000)	**200,000**
2	**365,240**	(98,260)	10,957	**277,937**	**200,000**	(50,000)	**150,000**
3	**277,937**	(98,260)	8,338	**188,015**	**150,000**	(50,000)	**100,000**
4	**188,015**	(98,260)	5,640	**95,395**	**100,000**	(50,000)	**50,000**
5	**95,395**	(98,260)	2,865	**0**	**50,000**	(50,000)	**0**

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognizes CU1,061 (CU99,321 – CU98,260) in surplus or deficit.

[a] Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use retained by comparing, at the commencement date, the right of use it retains via the leaseback to the rights comprising the entire building. Paragraph 99(a) does not prescribe a particular method for determining that proportion.

[b] Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect the expected lease payments estimated at the commencement date and, when discounted, result in the carrying amount of the lease liability at that date of CU450,000.

[c] Applying paragraph 101A and paragraph 37(a) of IPSAS 43, Seller-lessee increases the carrying amount of the lease liability to reflect interest on the lease liability using its incremental borrowing rate.

[d] Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect equal periodic payments over the lease term that, when discounted, result in the carrying amount of the lease liability at the commencement date of CU450,000.

IE13. Example 26 illustrates the application of the requirements in paragraphs 97A–97B of IPSAS 43 in a sale and leaseback transaction with an embedded concession at the inception of the lease.

Example 26–Sale at Market Terms and Leaseback at Below-Market Terms

Museum A (Seller-lessee) has faced some financial difficulties due to expected increasing maintenance costs to fulfill new safety measures required for their architecturally unique building. Therefore, Seller-lessee sells the building to local government X (Buyer-lessor) at its current market price. Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years with an annual payment which is at below-market terms. Buyer-lessor ensures, with this contract, that the main tourist attraction in the region keeps open for all visitors.

Seller-lessee sells the building, which has a total useful life of 25.5 years, to Buyer-lessor at its current market price (fair value) for cash of CU1,800,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU103,553 at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IPSAS 47, Revenue. This example ignores any initial direct costs. The annual payment at market rates is CU120,000.

As the sale is at fair value, the sale is at market terms. As the lease payments are at below-market terms, the leaseback has an embedded concession.

Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale at market terms and a leaseback at below-market terms.

The interest rate implicit in the lease is 4.5 percent per annum, which is readily determinable by Seller-lessee. The present value of the contractual annual payments (18 payments of CU103,553 discounted at 4.5 percent per annum), amounts to CU1,259,204.

There are no compliance obligations attached to the leaseback transaction.

Seller-lessee

At the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU810,667. This is calculated as: CU1,000,000 (the carrying amount of the building) ÷ CU1,800,000 (the fair value of the building) × CU1,459,199 (the discounted payments for the lease at market rates for the 18-year right-of-use asset).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU151,467 calculated as follows. The gain on sale of the building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

(a) CU648,533 (CU1,459,200 × CU800,000 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and

(b) CU151,467 (CU340,801 × CU800,000 ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

Further calculations:

(a) CU340,801 (CU1,800,000-CU1,459,199) related to rights retained by the Buyer-lessor (unguaranteed residual value at the beginning of the lease).

(b) CU199,995 (CU1,459,199-CU1,259,204) related to the concession.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Dr Cash	CU1,800,000	
Dr Right-of-use asset	CU810,666	
Cr Building		CU1,000,000
Cr Lease liability		CU1,259,204
Cr Revenue		CU199,995
Cr Gain on rights transferred		CU151,467

Buyer-lessor

The Buyer-lessor classifies the lease as a finance lease.

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Dr Building	CU1,800,000
Dr Financial asset	CU1,600,005 (18 payments of CU103,553, discounted at 4.5 per cent per annum (CU1,259,204) + unguaranteed residual value (CU340,801))

Dr Surplus or deficit (Concession expense)	CU199.995	
Cr Cash		CU1,800,000
Cr Building (value of the rights transferred to the Seller-lessee)		CU1,459,199
Cr Building (unguaranteed residual value)		CU340,801

After the commencement date, the Seller-lessee and Buyer-lessor account for the lease by treating CU103,553 as lease payments.

COMPARISON WITH IFRS 16

IPSAS 43, *Leases* is drawn primarily from IFRS 16 (2016) *Leases*, including amendments up to March 2021.

The main differences between IPSAS 43 and IFRS 16 are as follows:

- IPSAS 43 uses different terminology from IFRS 16. For example, IPSAS 43 uses the terms “revenue”, “operation”, “accumulated surpluses/(deficits)” and “segment”, while IFRS 16 uses the terms “income”, “business unit”, “retained earnings” and “business segment’, respectively.
- IPSAS 43 refers to both “economic benefits” and “service potential”, where appropriate, in the section on identifying a lease, while IFRS 16 refers only to “economic benefits”.
- IPSAS 43 does not include specific requirements for manufacturer or dealer lessors, whereas IFRS 16 does.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas IFRS 16 does not.
- IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas IFRS 16 does not.

COMPARISON WITH GFS

In developing IPSAS 43, *Leases*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 43 applies a right-of-use model for lessees and a risks and rewards model for lessors, while GFS applies a risks and rewards model for both lessees and lessors.
- Under IPSAS 43, lessors classify leases as finance lease or operating lease and lessees do not classify leases as finance lease or operating lease. Under GFS, leases are classified as financial lease, operating lease, or resource lease.
- Under IPSAS 43, lessees recognize a right-of use asset and a lease liability. Under GFS, an underlying asset and a loan are recognized in a financial lease and lease payments from operating leases are recognized as use of goods and services.
- IPSAS 43 provides an optional recognition exemption for lessees on short-term leases and leases for which the underlying asset is of low value. GFS does not provide such recognition exemption.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas GFS does not.
- IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas GFS does not.

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IPSAS 44, *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 5 *Non-current Assets Held for Sale and Discontinued Operations*, published by the International Accounting Standards Board (IASB®). Extracts from IFRS 5 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 44, *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* was issued in May 2022.

Since then, IPSAS 44 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)

Table of Amended Paragraphs in IPSAS 44

Paragraph Affected	How Affected	Affected By
16	Amended	IPSAS 45 May 2023
32	Amended	IPSAS 45 May 2023
37	Amended	IPSAS 45 May 2023
58A	New	IPSAS 45 May 2023
59	Amended	IPSAS 33 November 2025
Implementation Guidance – Example 11	Amended	IPSAS 47 May 2023

IPSAS 44, *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

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International Public Sector Accounting Standard 44, *Non-current Assets Held for Sale and Discontinued Operations*, is set out in paragraphs 1–60. All the paragraphs have equal authority. IPSAS 44 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, this Standard requires:

   (a) Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

   (b) Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations.**

3. The classification and presentation requirements of this Standard apply to all recognized non-current assets[1] and to all disposal groups of an entity. The measurement requirements of this Standard apply to all recognized non-current assets and disposal groups (as set out in paragraph 5), except for those assets listed in paragraph 6 which shall continue to be measured in accordance with the Standard noted.

4. Assets classified as non-current in accordance with IPSAS 1, *Presentation of Financial* Statements shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Standard. Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Standard.

5. Sometimes an entity disposes of a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit[2]. The group may include any assets and any liabilities of the entity, including current assets, current liabilities and assets excluded by paragraph 6 from the measurement requirements of this Standard. If a non-current asset within the scope of the measurement requirements of this Standard is part of a disposal group, the measurement requirements of this Standard apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. The requirements for measuring the individual assets and liabilities within the disposal group are set out in paragraphs 26, 27 and 31.

6. The measurement provisions of this Standard[3] do not apply to the following assets, which are covered by the Standards listed, either as individual assets or as part of a disposal group:

   (a) Deferred tax assets within the scope of the relevant international or national accounting standard dealing with income taxes;

   (b) Assets arising from employee benefits (IPSAS 39, *Employee Benefits*);

   (c) Financial assets within the scope of IPSAS 41, *Financial Instruments*;

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[1] For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period. Paragraph 4 applies to the classification of such assets.

[2] However, once the cash flows from an asset or group of assets are expected to arise principally from sale rather than continuing use, they become less dependent on cash flows arising from other assets, and a disposal group that was part of a cash-generating unit becomes a separate cash-generating unit.

[3] Other than paragraphs 26 and 27, which require the assets in question to be measured in accordance with other applicable IPSAS.

(d) Non-current assets that are accounted for in accordance with the current value model in IPSAS 16, *Investment Property;*

(e) Non-current assets that are measured at fair value less costs to sell in accordance with IPSAS 27, *Agriculture*; and

(f) Groups of contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts.

7. The classification, presentation and measurement requirements in this Standard applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

8. This Standard specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IPSAS do not apply to such assets (or disposal groups) unless those IPSAS require:

(a) Specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(b) Disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of this Standard and such disclosures are not already provided in the other notes to the financial statements.

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of IPSAS 1, in particular paragraphs 27 and 140 of that Standard.

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

An entity shall classify an asset as a current asset when:

(a) **It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;**

(b) **It holds the asset primarily for the purpose of trading;**

(c) **It expects to realize the asset within twelve months after the reporting period; or**

(d) **The asset is cash or a cash equivalent (as defined in IPSAS 2, *Cash Flow Statements*) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.**

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

(a) **Represents a separate major operation or geographical area of operations;**

(b) **Is part of a single coordinated plan to dispose of a separate operation or geographical area of operations; or**

(c) **Is a controlled entity acquired exclusively with a view to resale.**

A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a public sector combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 90A–90H of IPSAS 26, *Impairment of Cash-Generating Assets or* if it is an operation within such a cash-generating unit.

A firm purchase commitment is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.

Highly probable means significantly more likely than probable.

A non-current asset is an asset that does not meet the definition of a current asset.

Probable means more likely than not.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

10. **The term 'fair value' is used in this Standard with the same meaning as in IPSAS 46, *Measurement*.**

Classification of Non-current Assets (or Disposal Groups) as Held for Sale or as Held for Distribution to Owners

11. **An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.**

12. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

13. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 15, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of owners' approval[4] (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

14. An entity that is committed to a sale plan involving loss of control of a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the criteria set out in paragraphs 11–13 are met, regardless of whether the entity will retain a non-controlling interest in its former controlled entity after the sale.

[4] In the public sector, obtaining regulatory approval to sell assets is common.

15. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). This will be the case when the criteria in Appendix A are met.

16. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IPSAS 45, *Property, Plant, and Equipment.*

17. When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the one-year requirement in paragraph 13 is met (except as permitted by paragraph 15) and it is highly probable that any other criteria in paragraphs 12 and 13 that are not met at that date will be met within a short period following the acquisition (usually within three months).

18. If the criteria in paragraphs 12 and 13 are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the authorization of the financial statements for issue, the entity shall disclose the information specified in paragraph 51(a), (b) and (d) in the notes.

19. A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of owners' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

Non-current Assets that are to be Abandoned

20. An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 41(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 42 and 43 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

21. An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale

Measurement of a Non-current Asset (or Disposal Group)

22. **An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.**

23. **An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.[5]**

[5] Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

24. If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 17), applying paragraph 22 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a public sector acquisition (see IPSAS 40, *Public Sector Combinations*), it shall be measured at fair value less costs to sell. If the asset (or disposal group) is acquired as part of a public sector amalgamation (see IPSAS 40,), it shall be measured at the lower of its carrying amount and fair value less costs to sell.

25. When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in surplus or deficit as a financing cost.

26. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IPSAS.

27. On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this Standard, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable IPSAS before the fair value less costs to sell of the disposal group is remeasured.

Recognition of Impairment Losses and Reversals

28. An entity shall recognize an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognized in accordance with paragraph 27.

29. An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized either in accordance with this Standard or previously in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets.*

30. An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of a disposal group:

    (a) To the extent that it has not been recognized in accordance with paragraph 27; but

    (b) Not in excess of the cumulative impairment loss that has been recognized, either in accordance with this Standard or previously in accordance with IPSAS 21 or IPSAS 26, on the non-current assets that are within the scope of the measurement requirements of this Standard.

31. The impairment loss (or any subsequent gain) recognized for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Standard, in the order of allocation set out in paragraphs 91(a) and (b) and 110 of IPSAS 26.

32. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition. Requirements relating to derecognition are set out in:

    (a) Paragraphs 62–68 of IPSAS 45 for property, plant, and equipment; and

    (b) Paragraphs 111–116 of IPSAS 31*, Intangible Assets*, for intangible assets.

33. An entity shall not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

Changes to a Plan of Sale or to a Plan of Distribution to Owners

34. If an entity has classified an asset (or disposal group) as held for sale or as held for distribution to owners, but the criteria in paragraphs 12–15 (for held for sale) or in paragraph 19 (for held for distribution to owners) are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale or held for distribution to owners (respectively). In such cases an entity shall follow the guidance in paragraphs 36–38 to account for this change except when paragraph 35 applies.

35. If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or directly from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. The entity:

    (a) Shall not follow the guidance in paragraphs 36–38 to account for this change. The entity shall apply the classification, presentation and measurement requirements in this Standard that are applicable to the new method of disposal.

    (b) Shall measure the non-current asset (or disposal group) by following the requirements in paragraph 22 (if reclassified as held for sale) or 23 (if reclassified as held for distribution to owners) and recognize any reduction or increase in the fair value less costs to sell/costs to distribute of the non-current asset (or disposal group) by following the requirements in paragraphs 28–33.

    (c) Shall not change the date of classification in accordance with paragraphs 13 and 19. This does not preclude an extension of the period required to complete a sale or a distribution to owners if the conditions in paragraph 15 are met.

36. The entity shall measure a non-current asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners (or ceases to be included in a disposal group classified as held for sale or as held for distribution to owners) at the lower of:

    (a) Its carrying amount before the asset (or disposal group) was classified as held for sale or as held for distribution to owners, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale or as held for distribution to owners; and

    (b) Its recoverable amount at the date of the subsequent decision not to sell or distribute.[6]

37. The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in surplus or deficit[7] from continuing operations in the period in which the criteria in paragraphs 12–15 or 19, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution to owners is a controlled entity, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of financial performance used to present a gain or loss, if any, recognized in accordance with paragraph 47.

38. If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the criteria in paragraphs 12–15. If an entity removes an individual asset or liability

[6] If the non-current asset is part of a cash-generating unit, its recoverable amount is the carrying amount that would have been recognized after the allocation of any impairment loss arising on that cash-generating unit in accordance with IPSAS 26.

[7] Unless the asset is property, plant, and equipment or an intangible asset that had been revalued in accordance with IPSAS 31 or IPSAS 45 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

from a disposal group classified as held for distribution to owners, the remaining assets and liabilities of the disposal group to be distributed shall continue to be measured as a group only if the group meets the criteria in paragraph 19. Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale (or as held for distribution to owners) shall be measured individually at the lower of their carrying amounts and fair values less costs to sell (or costs to distribute) at that date. Any non-current assets that do not meet the criteria for held for sale shall cease to be classified as held for sale in accordance with paragraph 34. Any non-current assets that do not meet the criteria for held for distribution to owners shall cease to be classified as held for distribution to owners in accordance with paragraph 34.

Presentation and Disclosure

39. **An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).**

Presenting Discontinued Operations

40. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity may have been a cash-generating unit or a group of cash-generating units while being held for use.

41. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

    (a) Represents a separate major operation or geographical area of operations;

    (b) Is part of a single coordinated plan to dispose of a separate major operation or geographical area of operations; or

    (c) Is a controlled entity acquired exclusively with a view to resale.

42. An entity shall disclose:

    (a) A single amount in the statement of financial performance comprising the total of:

        (i) The post-tax surplus or deficit of discontinued operations; and

        (ii) The post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

    (b) An analysis of the single amount in (a) into:

        (i) The revenue, expenses and pre-tax surplus or deficit of discontinued operations;

        (ii) The related income tax expense as required by the relevant international or national accounting standard dealing with income taxes;

        (iii) The gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

        (iv) The related income tax expense as required by the relevant international or national accounting standard dealing with income taxes.

    The analysis may be presented in the notes or in the statement of financial performance. If it is presented in the statement of financial performance, it shall be presented in a section identified as relating to discontinued operations, i.e., separately from continuing operations. The analysis is not required for disposal groups that are newly acquired controlled entities that meet the criteria to be classified as held for sale on acquisition (see paragraph 17).

(c) The net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired controlled entities that meet the criteria to be classified as held for sale on acquisition (see paragraph 17).

(d) The amount of revenue from continuing operations and from discontinued operations attributable to owners of the controlling entity. These disclosures may be presented either in the notes or in the statement of financial performance.

43. An entity shall re-present the disclosures in paragraph 42 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

44. Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:

(a) The resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser.

(b) The resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller.

(c) The settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

45. If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations in accordance with paragraphs 42–44 shall be reclassified and included in revenue from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

46. An entity that is committed to a sale plan involving loss of control of a controlled entity shall disclose the information required in paragraphs 42–45 when the controlled entity is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 41.

Gains or Losses Relating to Continuing Operations

47. Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in surplus or deficit from continuing operations.

Presentation of a Non-current Asset or Disposal Group Classified as Held for Sale

48. An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes, except as permitted by paragraph 49. An entity shall present separately any cumulative revenue or expense recognized in the statement of changes in net assets/equity relating to a non-current asset (or disposal group) classified as held for sale.

49. If the disposal group is a newly acquired controlled entity that meets the criteria to be classified as held for sale on acquisition (see paragraph 17), disclosure of the major classes of assets and liabilities is not required.

50. An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.

Additional Disclosures

51. An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

    (a) A description of the non-current asset (or disposal group);

    (b) A description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

    (c) The gain or loss recognized in accordance with paragraphs 28–30 and, if not separately presented in the statement of financial performance, the caption in the statement of financial performance that includes that gain or loss; and

    (d) If applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with IPSAS 18, *Segment Reporting.*

52. An entity shall disclose in the notes, the fair value of the non-current asset (or disposal group) classified as held for sale when that non-current asset (or disposal group) is measured at a materially lower carrying amount than fair value.

53. If either paragraph 34 or paragraph 38 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

Fair Value Disclosures

54. An entity shall disclose information that helps users of its financial statements assess, for assets and liabilities that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.

55. To meet the objectives in paragraph 54, an entity shall consider all the following:

    (a) The level of detail necessary to satisfy the disclosure requirements;

    (b) How much emphasis to place on each of the various requirements;

    (c) How much aggregation or disaggregation to undertake; and

    (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

    If the disclosures provided in accordance with this Standard and other IPSAS are insufficient to meet the objectives in paragraph 54, an entity shall disclose additional information necessary to meet those objectives.

56. To meet the objectives in paragraph 54, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value (including measurements based on fair value within the scope of IPSAS 46), in the statement of financial position after initial recognition:

    (a) The fair value measurement at the end of the reporting period, and the reasons for the measurement.

(b) The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3).

(c) For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

(d) For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

(e) For fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

57. For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraphs 56(b), 56(c) and 56(e). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 56(c). For such assets and liabilities, an entity does not need to provide the other disclosures required by this Standard.

Effective Date and Transition

Effective Date

58. **An entity shall apply this Standard for annual financial statements beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 *Leases* at the same time.**

58A. **Paragraphs 16, 32, and 37 were amended by IPSAS 45 issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.**

59. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

60. This Standard shall be applied prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after the effective date of this Standard. An entity may apply the requirements of this Standard to all non-current assets

(or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after any date before the effective date of this Standard, provided the valuations and other information needed to apply this Standard were obtained at the time those criteria were originally met.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 44

Extension of the period required to complete a sale (paragraph15)

AG1. As noted in paragraph 15, an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). An exception to the one-year requirement in paragraph 13 shall therefore apply in the following situations in which such events or circumstances arise:

(a) At the date an entity commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and:

(i) Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained, and

(ii) A firm purchase commitment is highly probable within one year.

(b) An entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and:

(i) Timely actions necessary to respond to the conditions have been taken; and

(ii) A favorable resolution of the delaying factors is expected.

(c) During the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:

(i) During the initial one-year period the entity took action necessary to respond to the change in circumstances;

(ii) The non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances; and

(iii) The criteria in paragraphs 12 and 13 are met.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 44.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions on IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*. This Standard is based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (including amendments up to March 2017) issued by the International Accounting Standards Board (IASB). The Basis for Conclusions outlines only those areas where IPSAS 44 departs from the requirements of IFRS 5.

Background

BC2. IFRS 5 was issued by the IASB in March 2004 and its objective is to specify the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations. Prior to the issuance of this Standard there were no equivalent requirements in IPSAS for the accounting for non-current assets held for sale.

BC3. The IPSASB's *Strategy and Work Plan 2019-2023* identified a project to develop an IPSAS aligned with IFRS 5 as part of Theme B – 'Maintaining alignment with IFRS' which then led to the development of this Standard. The IPSASB approved the Project Brief for this Standard at the June 2020 IPSASB meeting.

BC4. The IPSASB considered whether the title of this Standard should differ from IFRS 5 but decided that there was no public sector reason to do so.

Scope

BC5. The IPSASB considered whether assets that are surplus to an entity's operational requirements, but where no decision as to their future (i.e., either sale, transfer, or scrap) has been taken, should be within the scope of this Standard. The IPSASB also considered whether non-current assets that are to be transferred, rather than sold, to another public sector entity should be within scope.

BC6. The IPSASB noted that this project is an IFRS alignment project. IFRS 5 is intended to apply only to non-current assets that will be sold. Specific criteria have to be met for non-current assets to be classified as held for sale. As a result of public consultation and other regulatory requirements, public sector asset disposals can take considerable periods of time. The IPSASB decided that while such assets may be surplus to operational needs for this extended period, they would not meet the criteria for classification as held for sale until compliance with the necessary consultation and other regulatory requirements have been met. Until the criteria have been met, such assets, and assets to be transferred to another public sector entity, would fall outside the scope of this Standard, and should be accounted for under the requirements of the relevant IPSAS.

BC7. When this Standard was issued, the IPSASB had also discussed whether disclosures requiring the carrying amount of surplus non-current assets or non-current assets that are to be transferred to other public sector entities should have been added to IPSAS 17, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The IPSASB had decided that, because these transactions were beyond the scope of IPSAS 44 (as noted above in BC6) and were not consequential amendments arising from this Standard, it was not appropriate to include a requirement for such disclosures in IPSAS 44. The IPSASB had also noted that IPSAS 17 encouraged disclosures for temporarily idle property, plant, and equipment, and property, plant, and equipment retired from active use that is not within the scope of IPSAS 44. In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

Definitions

BC8. The IPSASB decided to replace the IFRS 5 definition of a 'cash-generating unit' with the definition in IPSAS 26, *Impairment of Cash-Generating Assets* to maintain consistency of terminology within IPSAS.

Measurement

BC9. The IPSASB considered whether there was any public sector reason to depart from the measurement requirements in IFRS 5. These requirements are that non-current assets classified as held for sale are to be measured at the lower of carrying amount and fair value less costs to sell. The IPSASB discussed whether non-current assets classified as held for sale should only be measured at fair value because the purpose of holding such assets is for financial capacity. It was noted that when public sector assets that are non-cash-generating and are held for their operational capacity are to be sold, the purpose of holding these assets changes from operational capacity to financial capacity, and fair value provides the most relevant value.

BC10. However, the IPSASB noted that, in circumstances where assets are measured using the historical cost model and the carrying amount is lower than the fair value less costs to sell, an entity would need to recognize an increase in value either as revenue or as a gain on revaluation. The IPSASB concluded that such an increase in value did not meet the recognition criteria for revenue nor was recognition as a gain on revaluation appropriate under the historical cost model. Further, this situation would not be unique to the public sector and so there was no reason to depart from the measurement requirement of IFRS 5 for this Standard.

BC11. The IPSASB also considered whether the measurement requirements in IFRS 5 should be adapted so that non-current assets that are to be sold in a negotiated agreement at a value other than fair value (for policy reasons) should be measured at the lower of carrying amount and net selling price. The IPSASB noted that private sector entities also sell assets at amounts other than fair value, and so there is no public sector reason to depart from the requirements of IFRS 5.

BC12. The IPSASB noted that IFRS 5 requires assets acquired in a business combination that meet the criteria to be classified as held for sale to be measured at fair value less costs to sell. However, in a public sector combination, assets can be acquired through an acquisition or an amalgamation. Assets acquired through a public sector acquisition are measured on acquisition at fair value; therefore, if they meet the criteria to be classified as held for sale, they are measured at fair value less costs to sell. However, assets acquired in a public sector amalgamation are measured at the carrying amount. Under the IFRS 5 requirements, if these assets met the criteria to be held for sale, they would be measured at fair value less costs to sell, and hence there may be an increase in value. Therefore, the IPSASB amended the requirements for assets acquired through a public sector amalgamation that met the criteria to be classified as held for sale: these should be measured at the lower of carrying amount and fair value less costs to sell.

Cross-Reference to IFRS 13, Fair Value

BC13. The IPSASB decided to refer to IFRS 13, *Fair Value* instead of the relevant national or international accounting standard dealing with measurement, where appropriate. In reaching this decision, the IPSASB noted that these references will be updated when a new IPSAS on Measurement is issued. IPSAS 46, *Measurement* was issued in May 2023, and references to IFRS 13 were updated.

Disclosure

BC14. The IPSASB decided that in the public sector, transparency and accountability are important when an entity decides to sell non-current assets. Therefore, when an asset is classified as held for sale and measured at a carrying amount that is materially lower than fair value, disclosure of the asset's fair value in the notes to the financial statements provides users with information relevant for holding the entity accountable. The IPSASB also noted that this was consistent with advice from members of the IPSASB Consultative Advisory

Group that information which allows users to hold the entity accountable for decisions regarding sales of non-current assets is in the public interest.

Effective Date

BC15. The IPSASB decided that IPSAS 44 should have an effective date for annual financial statements covering periods beginning on or after January 1, 2025, which aligns with the effective date for IPSAS 43, *Leases*. Earlier application permitted, but IPSAS 43, *Leases,* would need to be applied at the same time.

IMPLEMENTATION GUIDANCE

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Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 44.

Availability for immediate sale (paragraph 12)

To qualify for classification as held for sale, a non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) (paragraph 12). A non-current asset (or disposal group) is available for immediate sale if a government entity currently has the intention and ability to transfer the asset (or disposal group) to a buyer in its present condition. Examples 1–3 illustrate situations in which the criterion in paragraph 12 would or would not be met.

Example 1

A government entity is committed to a plan to sell its municipal building and has initiated actions to locate a buyer.

(a) The government entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 12 would be met at the plan commitment date.

(b) The government entity will continue to use the building until construction of a new municipal building is completed. The government entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the government entity (seller) demonstrates that the building is not available for immediate sale. The criterion in paragraph 12 would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

Example 2

A government entity is committed to a plan to sell a road repair operation and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted government road repair orders.

(a) The government entity intends to sell the road repair operation with its existing government road repair orders. Any uncompleted government road repair orders at the sale date will be transferred to the buyer and the buyer will repair government roads on a contract basis. The transfer of uncompleted government road repair orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 12 would be met at the plan commitment date.

(b) The government entity intends to sell the road repair operation, but without its existing road repair orders. The government entity does not intend to transfer the operation to a buyer until after the backlog of uncompleted government road repair orders are fulfilled. The delay in the timing of the transfer of the operation imposed by the government entity (seller) demonstrates that the operation is not available for immediate sale. The criterion in paragraph 12 would not be met until government road repair orders are completed, even if a firm purchase commitment for the future transfer of the operation were obtained earlier.

Example 3

A government entity seizes, due to the owner failing to pay taxes, a property comprising land and buildings that it intends to sell.

(a) The government entity does not intend to transfer the property to a buyer until after it completes renovations to increase the property's sales value. The delay in the timing of the transfer of the property imposed by the government entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 12 would not be met until the renovations are completed.

(b) After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the government entity becomes aware of environmental damage requiring remediation. The government entity still intends to sell the property. However, the government entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 12 would not continue to be met as the property is no longer available for immediate sale. The property would be reclassified as held and used in accordance with paragraph 34.

Completion of sale expected within one year (paragraph 13)

Example 4

To qualify for classification as held for sale, the sale of a non-current asset (or disposal group) must be highly probable (paragraph 12), and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (paragraph 13). That criterion would not be met if, for example:

(a) A government entity that supplies computer equipment to individual departmental agencies, holds obsolete equipment and it has not yet been determined whether the equipment will be sold to employees, transferred to another public sector entity at no cost or donated to a not-for-profit entity.

(b) A government entity is committed to a plan to 'sell' a property that is in use as part of a sale and leaseback transaction, but the transfer does not qualify to be accounted for as a sale in accordance with paragraph 98 of IPSAS 43, *Leases* and, instead, will be accounted for in accordance with paragraph 102 of IPSAS 43.

Exceptions to the criterion that the sale should be expected to be completed in one year (paragraphs 13 and AG1)

An exception to the one-year requirement in paragraph 13 applies in limited situations in which the period required to complete the sale of a non-current asset (or disposal group) will be (or has been) extended by events or circumstances beyond an entity's control and specified conditions are met (paragraphs 15 and AG1). Examples 5–7 illustrate those situations.

Example 5

A government entity in the power generating industry is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires prospective buyers to obtain regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is highly probable within one year. In that situation, the conditions in paragraph AG1(a) for an exception to the one-year requirement in paragraph 13 would be met.

Example 6

A government entity is committed to a plan to sell a government manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The government entity is required by the buyer to make good the damage, which will extend the period required to complete the sale beyond one year. However, the government entity has initiated actions to make good the damage, and satisfactory rectification of the damage is highly probable. In that situation, the conditions in paragraph AG1(b) for an exception to the one-year requirement in paragraph 13 would be met.

Example 7

A government entity is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date.

(a) During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the government entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraphs 12 and 13 are therefore met. In that situation, the conditions in paragraph AG1(c) for an exception to the one-year requirement in paragraph 13 would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

(b) During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The government entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by paragraph 12. In addition, paragraph 13 also requires an asset to be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph AG1(c) for an exception to the one-year requirement in paragraph 13 would not be met. The asset would be reclassified as held and used in accordance with paragraph 34.

Determining whether an asset has been abandoned (paragraph 20 and 21)

Paragraphs 20 and 21 of this Standard specify requirements for when assets are to be treated as abandoned. Example 8 illustrates when an asset has not been abandoned.

Example 8

A government entity ceases to use a storage facility because demand for storage has declined. However, the storage facility is maintained in workable condition, and it is expected that it will be brought back into use if demand picks up. The storage facility is not regarded as abandoned.

Presenting a discontinued operation that has been abandoned (paragraph 20)

Paragraph 20 of this Standard prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned are a major operation or geographical area of operations, they are reported in discontinued operations at the date at which they are abandoned. Example 9 illustrates this.

Example 9

In October 20X5 a government entity decides to abandon all its ammunition manufacturing facilities, which constitutes a major operation. All work stops at the ammunition manufacturing facilities during the year ended 31 December 20X6. In the financial statements for the year ended 31 December 20X5, results and cash flows of the ammunition manufacturing facilities are treated as continuing operations. In the financial statements for the year ended 31 December 20X6, the results and cash flows of the ammunition manufacturing facilities are treated as discontinued operations and the government entity makes the disclosures required by paragraphs 42 and 43 of this Standard.

Allocation of an impairment loss on a disposal group (paragraph 31)

Paragraph 31 of this Standard requires an impairment loss (or any subsequent gain) recognized for a disposal group to reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the

measurement requirements of this Standard, in the order of allocation set out in paragraphs 91 and 110 of IPSAS 26. Example 10 illustrates the allocation of an impairment loss on a disposal group.

Example 10

A government entity plans to dispose of a group of its assets (as an asset sale). The assets form a disposal group, and are measured as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	**Carrying amount as remeasured immediately before classification as held for sale**
	CU[(a)]	**CU**
Goodwill	1,500	1,500
Property, plant, and equipment (carried at revalued amounts)	4,600	4,000
Property, plant, and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
Total	**16,000**	**14,900**

(a) In this guidance, monetary amounts are denominated in 'currency units (CU)'.

The government entity recognizes the loss of CU1,100 (CU16,000 – CU14,900) immediately before classifying the disposal group as held for sale.

The government entity measures the fair value less costs to sell of the disposal group as CU13,000. Because a government entity measures a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the government entity recognizes an impairment loss of CU1,900 (CU14,900 – CU13,000) when the group is initially classified as held for sale.

The impairment loss is allocated to non-current assets to which the measurement requirements of this Standard are applicable. Therefore, no impairment loss is allocated to inventories and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in paragraphs 91 and 110 of IPSAS 26.

The allocation can be illustrated as follows:

	Carrying amount as remeasured immediately before classification as held for sale	**Allocated impairment loss**	**Carrying amount after allocation of impairment loss**
	CU	**CU**	**CU**
Goodwill	1,500	(1,500)	0

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	CU	**CU**	**CU**
Property, plant, and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant, and equipment (carried at cost)	5,700	(235)	5,465
Inventories	2,200	–	2,200
Investments in equity instruments	1,500	–	1,500
Total	**14,900**	**(1,900)**	**13,000**

First, the impairment loss reduces any amount of goodwill. Then, the residual loss is allocated to other assets pro rata based on the carrying amounts of those assets.

Presenting discontinued operations in the statement of financial performance (paragraph 42)

Paragraph 42 of this Standard requires an entity to disclose a single amount in the statement of financial performance for discontinued operations with an analysis in the notes or in a section of the statement of financial performance separate from continuing operations. Example 11 illustrates how these requirements might be met.

Example 11

XYZ GOVERNMENT ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)

(in thousands of currency units)	**20X2**	**20X1**
Continuing operations		
Revenue		
Taxes	X	X
Other compulsory contributions and levies	X	X
Transfers without a binding arrangement	X	X
Revenue from compliance obligations in a binding arrangement	X	X
Other revenue	X	X
Total revenue	X	X
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)

Education	(X)	(X)
Health	(X)	(X)
Social benefits	(X)	(X)
Other social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural, and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	**(X)**	**(X)**
Share of surplus of associates*	X	X
-		
Surplus/(deficit) for the period from continuing operations	X	X
Discontinued operations		
Surplus for the period from discontinued operations[(a)]	X	X
Surplus for the period	X	X
Attributable to:		
Owners of the controlling entity		
Surplus for the period from continuing operations	X	X
Surplus for the period from discontinued operations	X	X
Surplus for the period attributable to owners of the controlling entity	X	X
Non-controlling interests		
Surplus for the period from continuing operations	X	X
Surplus for the period from discontinued operations	X	X
Surplus for the period attributable to non-controlling interests	X	X
	X	X

* This means the share of associates' surplus attributable to owners of the associates, i.e., it is after tax and non-controlling interests in the associates.

(a) The required analysis would be given in the notes.

Presenting non-current assets or disposal groups classified as held for sale (paragraph 48)

Paragraph 48 of this Standard requires an entity to present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are also presented separately from other liabilities in the statement of financial position. Those assets and liabilities are not offset and presented as a single amount. Example 12 illustrates these requirements.

Example 12

At the end of 20X5, a government entity decides to dispose of part of its assets (and directly associated liabilities). The disposal, which meets the criteria in paragraphs 12 and 13 to be classified as held for sale, takes the form of two disposal groups, as follows:

	Carrying amount after classification as held for sale	
	Disposal group I: CU	Disposal group II: CU
Property, plant, and equipment	4,900	1,700
Investments in equity instruments	1,400[(a)]	–
Liabilities	(2,400)	(900)
Net carrying amount of disposal group	**3,900**	800

The presentation in the government entity's statement of financial position of the disposal groups classified as held for sale can be shown as follows:

(a) An amount of CU400 relating to these assets has been recognized in the statement of changes in net assets/equity and accumulated in net assets/equity.

	20X5	**20X4**
ASSETS		
Non-current assets		
AAA	X	X
BBB	X	X
CCC	X	X
	X	X
Current assets		
DDD	X	X
EEE	X	X
	X	X
Non-current assets classified as held for sale	8,000	–

	20X5	20X4
	X	X
Total assets	X	X
NET ASSETS/EQUITY AND LIABILITIES		
Net Assets/Equity attributable to owners of the controlling entity		
FFF	X	X
GGG	X	X
Amounts recognized in statement of changes in net assets/equity and accumulated in net assets/equity relating to non-current assets held for sale	400	–
	X	X
Non-controlling interests	X	X
Total net assets/equity	X	X
Non-current liabilities		
HHH	X	X
III	X	X
JJJ	X	X
	X	X
Current liabilities		
KKK	X	X
LLL	X	X
MMM	X	X
Liabilities directly associated with non-current assets classified as held for sale	3,300	–
	X	X
Total liabilities	X	X
Total net assets/equity and liabilities	X	X

The presentation requirements for assets (or disposal groups) classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative statements of financial position for any previous periods are therefore not re-presented.

Measuring and presenting controlled entities acquired with a view to resale and classified as held for sale (paragraph 17)

A controlled entity acquired with a view to sale is not exempt from consolidation in accordance with IPSAS 35, *Consolidated Financial Statements*, unless the acquirer is an investment entity, as defined in IPSAS 35, and is required to measure the investment in that controlled entity at fair value through surplus or deficit. However, if it meets the criteria in paragraph 17, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

Example 13

Government entity A acquires an entity H, which is a controlling entity with two controlled entities, CE1 and CE2. CE2 is acquired exclusively with a view to sale and meets the criteria to be classified as held for sale. In accordance with paragraph 41(c), CE2 is also a discontinued operation.

The fair value less costs to sell of CE2 is CU135. Government entity A accounts for CE2 as follows:

- Initially, government entity A measures the identifiable liabilities of CE2 at fair value, say at CU40
- Initially, government entity A measures the acquired assets as the fair value less costs to sell of CE2 (CU135) plus the fair value of the identifiable liabilities (CU40), i.e., at CU175
- At the end of the reporting period, government entity A remeasures the disposal group at the lower of its cost and fair value less costs to sell, say at CU130. The liabilities are remeasured in accordance with applicable IPSAS, say at CU35. The total assets are measured at CU130 + CU35, i.e., at CU165
- At the end of the reporting period, government entity A presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 12 *Presenting non-current assets or disposal groups classified as held for sale*, and
- In the statement of financial performance, government entity A presents the total of the post-tax surplus or deficit of CE2 and the post-tax gain or loss recognized on the subsequent remeasurement of CE2, which equals the remeasurement of the disposal group from CU135 to CU130.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.

COMPARISON WITH IFRS 5

IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* is drawn primarily from IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (issued in 2004, including amendments made up to May 2017).

The main difference between IPSAS 44 and IFRS 5 are as follows:

- IPSAS 44 requires disclosure in the notes of the fair value of a non-current asset (or disposal group) classified as held for sale if fair value is materially different to the carrying amount;
- IPSAS 44 replaces the IFRS 5 definition of a cash-generating unit with the definition of a cash-generating unit defined in IPSAS 26, *Impairment of Cash-Generating Assets*;
- IPSAS 44, acknowledges that public sector combinations differ from business combinations and can be either an acquisition or an amalgamation. Therefore, IPSAS 44 requires assets acquired in a public sector amalgamation that are to immediately be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell; and
- IPSAS 44 uses different terminology in certain instances from IFRS 5. The most significant examples are the use of the terms “operation”, “public sector combination”, “revenue”, “owner”, “controlling entity” and “controlled entity”. The equivalent terms in IFRS 5 are “business”, “business combination”, “income”, “shareholder”, “parent” and “subsidiary”.

COMPARISON WITH GFS

In developing IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- GFS uses market value as the general valuation approach for all assets. Under IPSAS 44, a non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Market value can be used as a technique for estimating fair value under IPSAS.
- Under IPSAS 44, a non-current asset (or disposal group) is classified as held for sale when it is available for immediate sale in its present condition, and its sale is highly probable, subject only to terms that are usual for sales of such assets (or disposal groups). GFS does not have this type of classification.
- IPSAS 44 includes disclosure requirements that are not present in GFS.

IPSAS 45, *PROPERTY, PLANT, AND EQUIPMENT*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 16 (Revised 2003), *Property, Plant and Equipment*, published by the International Accounting Standards Board (IASB®), and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* published by the IFRS® Interpretations Committee. Extracts from IAS 16 and IFRIC 1 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 45, *PROPERTY, PLANT, AND EQUIPMENT*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 45, *Property, Plant, and Equipment* was issued in May 2023.

Since then, IPSAS 45 has been amended by the following IPSAS Accounting Standards:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) (issued October 2025)
- *Amendments to IPSAS Standards: Specific IFRIC Interpretations* (issued January 2025)
- IPSAS 50, *Exploration for and Evaluation of Mineral Resources* (issued November 2024)
- IPSAS 47, *Revenue* (issued May 2023)

Table of Amended Paragraphs in IPSAS 45

Paragraph Affected	How Affected	Affected By
3	Amended	IPSAS 50 November 2024 IPSAS 51 January 2026
25	Amended	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
64	Amended	IPSAS 47 May 2023
67	Amended	IPSAS 47 May 2023
68	Amended	IPSAS 47 May 2023
79	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
81	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
85A	New	IPSAS 47 May 2023
85B	New	IPSAS 50 November 2024

Paragraph Affected	How Affected	Affected By
85C	New	*Amendments to IPSAS Standards: Specific IFRIC Interpretations* January 2025
85D	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
85E	New	IPSAS 51 January 2026
86	Amended	IPSAS 33 November 2025
87E	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
AG2	Amended	IPSAS 51 January 2026
IG12	Amended	*Definition of Material* October 2025

IPSAS 45, *PROPERTY, PLANT, AND EQUIPMENT*

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International Public Sector Accounting Standard 45, *Property, Plant, and Equipment*, is set out in paragraphs 1–89. All the paragraphs have equal authority. IPSAS 45 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are the recognition of the assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

Scope (see paragraphs AG1-AG7)

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except when another Standard requires or permits a different accounting treatment.**

3. This Standard does not apply to:

   (a) Biological assets related to agricultural activity other than bearer plants (see IPSAS 27, *Agriculture*). This Standard applies to bearer plants but does not apply to the produce on bearer plants;

   (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources);

   (c) Property, plant, and equipment classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*;

   (d) The recognition and measurement of exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources*); and

   (e) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

   However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(a), 3(b) and 3(d).

4. An entity using the historical cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the historical cost model in this Standard for owned investment property.

Definitions (see paragraphs AG8-AG11)

5. **The following terms are used in this Standard with the meanings specified:**

   Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

   Class of property, plant, and equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

   Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

   Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

   Property, plant, and equipment are tangible assets that:

   (a) **Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**

(b) **Are expected to be used during more than one reporting period.**

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

(a) **The period over which an asset is expected to be available for use by an entity; or**

(b) **The number of production or similar units expected to be obtained from the asset by an entity.**

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

The following terms are defined and are used in this Standard with the same meaning as in IPSAS 46, *Measurement*:

(a) **Historical cost;**

(b) **Current operational value; and**

(c) **Fair value.**

The term recoverable service amount is defined in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and is used in this Standard with the same meaning as in IPSAS 21.

The term recoverable amount is defined in IPSAS 26, *Impairment of Cash-Generating-Assets* and is used in this Standard with the same meaning as in IPSAS 26.

The term bearer plant is defined in IPSAS 27 and is used in this Standard with the same meaning as in IPSAS 27.

Recognition (see paragraphs AG12-AG16)

6. **An item of property, plant, and equipment shall be recognized if, and only if:**

   (a) **It is probable that future economic benefits or service potential associated with the item will flow to the entity; and**

   (b) **The item can be measured reliably**[1]**.**

7. If an entity holds heritage property, plant, and equipment that meets the definition of an asset, but which does not meet the recognition criteria in paragraph (b), information as required by paragraph 77 shall be disclosed in the notes to the financial statements. When information about the cost or current value of the heritage property, plant, and equipment becomes available, the entity shall, from that date, recognize the heritage property, plant, and equipment in accordance with paragraph 6 and apply the measurement principles in this Standard.

8. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to (a) disaggregate individually significant items, such as floors of a building, into separate units of account when the objective for which the entity holds the building is both for operational and financial capacity or (b) aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1, Presentation of Financial Statements discusses the transitional approach to the explanation of reliability.

9. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire, construct or develop an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant, and equipment, such as depreciation of right-of-use assets.

10. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition, construction, or development of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired, constructed, or developed. For example, fire safety regulations may require a hospital to retrofit new sprinkler systems. These enhancements are recognized because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21 and IPSAS 26.

Initial Measurement (see paragraphs AG17-AG19)

11. **An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, as described in paragraphs 14-19, unless it is acquired through a non-exchange transaction.**

12. **Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost. An entity shall apply IPSAS 46 when measuring deemed cost of an item of property, plant, and equipment.**

13. For the purposes of this Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its deemed cost consistent with the requirements of paragraph 12, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 29, and the supporting Application Guidance, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.

Elements of Cost

14. The cost of an item of property, plant, and equipment comprises:

    (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

    (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

    (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

15. Examples of directly attributable costs are:

    (a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the acquisition, construction, or development of the item of property, plant, and equipment;

    (b) Costs of site preparation;

(c) Initial delivery and handling costs;

(d) Installation and assembly costs;

(e) Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and

(f) Professional fees.

16. An entity applies IPSAS 12, *Inventories*, to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and this Standard are recognized and measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

17. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:

(a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) Initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) Costs of relocating or reorganizing part or all of the entity's operations.

18. Items may be produced while bringing an item of property, plant, and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognizes the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IPSAS 12.

19. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.

Measurement of Cost

20. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 12, its deemed cost at the recognition date. If payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.

21. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to

an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at its current value unless the exchange transaction lacks commercial substance, or the current value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at current value, its cost is measured at the carrying amount of the asset given up.

22. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

    (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

    (b) The portion of the entity's operations affected by the transaction changes as a result of the exchange; and

    (c) The difference in (a) or (b) is significant relative to the current value of the assets exchanged.

    For the purpose of determining the portion of the entity's operations affected by the transaction, as in paragraph 22(b), the entity calculates the present value of the expected cash flows, (or post-tax cash flows when tax applies), to arise from the continuing use of an asset and from its disposal at the end of its useful life. The result of these analyses may be clear without an entity having to perform detailed calculations.

23. The current value of an asset is reliably measurable if the variability in the range of reasonable current value measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value. If an entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Subsequent Measurement (see paragraphs AG20-AG36)

24. **An entity shall choose either the historical cost model in paragraph 26 or the current value model in paragraph 27 as its accounting policy and shall apply that policy to an entire class of property, plant, and equipment.**

25. **When the measurement requirements are applied to the item of property, plant, and equipment after recognition, an entity shall apply IPSAS 46. If an entity's initial measurement of an item of property, plant, and equipment included an initial estimate of the cost of dismantling and removing the item and restoring the site under paragraph 14(c), for which it recognized a corresponding liability in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, the entity shall also apply Appendix B of IPSAS 19 in its subsequent measurement of the item.**

Historical Cost Model

26. **After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses.**

Current Value Model (see paragraphs AG20-AG23)

27. **After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. The primary objective for which an entity holds an item**

or part of an item of property, plant, and equipment determines the current value measurement basis. An item or part of an item of property, plant, and equipment held primarily for its operational capacity is measured at current operational value, and when it is held primarily for its financial capacity is measured at fair value.

28. The measurement basis used to measure current value, either current operational value or fair value, shall be applied consistently to an item or part of an item of property, plant, and equipment at each measurement date, unless the primary objective for which the entity holds an item or part of an item of property, plant, and equipment has changed. In that case a change in the current value measurement basis, from current operational value to fair value, or vice versa, is appropriate.

29. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 36-38.**

30. The frequency of revaluations depends upon the changes in current values of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in current value. Instead, it may be necessary to revalue the item only every three or five years.

31. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

    (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

    (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

    The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 36 and 37.

32. **If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.**

33. Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26 do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.

34. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

    (a) Land;

    (b) Operational buildings;

    (c) Machinery;

    (d) Ships;

    (e) Aircraft;

    (f) Weapons systems;

(g) Motor vehicles;

(h) Furniture and fixtures;

(i) Office equipment;

(j) Oil rigs;

(k) Bearer plants;

(l) Heritage collections; and

(m) Infrastructure.

When grouping property, plant, and equipment into classes, an entity may identify items with similar nature, but held for different functions, or vice versa. For example, while various parcels of land might be similar in nature, some may be held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and presenting information using historical cost for one class and current value for the other.

35. The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

36. **If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**

37. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**

38. **Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.**

39. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

40. Guidance on the effects of taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes.

Depreciation (see paragraphs AG24-AG36)

41. **Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.**

42. A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

43. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

44. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

45. **The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.**

46. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset, and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31, *Intangible Assets*.

Depreciable Amount and Depreciation Period (see paragraphs AG25-AG27)

47. **The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.**

48. **The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

49. Depreciation is recognized even if the current value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed, and/or the asset tested for impairment in accordance with paragraph 59, and adjusted accordingly.

50. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Buildings generally have a finite useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

51. If the carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a finite useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Finite and Indefinite Useful Lives (see paragraphs AG28-AG32)

52. An entity shall assess whether the useful life of property, plant, and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting that useful life. Land usually has an indefinite useful life. There is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. Property, plant, and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to, or be used to generate net cash inflows for the entity.

53. An item of property, plant, and equipment with a finite useful life is depreciated. An item of property, plant, and equipment with an indefinite useful life is not depreciated.

54. The term “indefinite” does not mean “infinite.” The useful life of property, plant, and equipment should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means that they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, a conclusion that the useful life of property, plant, and equipment is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current standard of performance. Nor should such a conclusion depend on preservation actions for which there is no realistic likelihood under present or projected budget constraints.

55. The useful life of an item of property, plant, and equipment may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.

Annual Impairment Reviews for Assets with Indefinite Useful Lives

56. An entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21 and IPSAS 26.

Depreciation Method (see paragraphs AG33-AG34)

57. **The depreciation method shall reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity.**

58. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**

Impairment

59. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

Compensation for Impairment

60. **Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.**

61. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase, construction, or development of replacement assets are separate economic events and are accounted for separately as follows:

(a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(b) Derecognition of items of property, plant, and equipment retired or disposed of is determined in accordance with this Standard;

(c) Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and

(d) The cost of items of property, plant, and equipment restored, purchased, constructed, or developed as replacement is determined in accordance with this Standard.

Derecognition

62. **The carrying amount of an item of property, plant, and equipment shall be derecognized:**

(a) **On disposal; or**

(b) **When no future economic benefits or service potential is expected from its use or disposal.**

63. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 43, *Leases* requires otherwise on a sale and leaseback).**

64. The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). The date of disposal of an item of property, plant, and equipment is the date the recipient obtains control of that item in accordance with the requirements, and any enforceable obligations or compliance obligations are satisfied in IPSAS 47, *Revenue*. IPSAS 43 applies to disposal by a sale and leaseback.

65. If, under the recognition principle in paragraph 6, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired, constructed, or developed.

66. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

67. The amount of consideration to be included in the surplus or deficit arising from the derecognition of property, plant, and equipment is determined in accordance with the requirements for determining the transaction consideration in paragraphs 109–132 of IPSAS 47. Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction consideration in IPSAS 47.

68. However, an entity that, in the course of its activities, routinely provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The amount of consideration from the disposal of such assets shall be recognized as revenue in accordance with IPSAS 47. IPSAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

Disclosure

General Disclosure for Property, Plant, and Equipment

69. **The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:**

    (a) **The measurement bases used for determining the gross carrying amount;**

    (b) **The depreciation methods used;**

    (c) **The useful lives or the depreciation rates used;**

    (d) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**

    (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

        (i) **Additions;**

        (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

        (iii) **Acquisitions through public sector combinations;**

        (iv) **Increases or decreases resulting from revaluations under paragraphs 29, 36, and 37 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

        (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

        (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

        (vii) **Depreciation;**

        (viii) **The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**

        (ix) **Other changes.**

70. **The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:**

    (a) **The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;**

    (b) **The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction or development; and**

    (c) **The amount of contractual commitments for the acquisition, construction, or development of property, plant, and equipment.**

71. **If not presented separately in the statement of financial performance, the financial statements shall also disclose:**

    (a) **The amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and**

(b) **The amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 18 that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.**

72. Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and

(b) Accumulated depreciation at the end of the period.

73. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to:

(a) Residual values;

(b) The estimated costs of dismantling, removing, or restoring items of property, plant, and equipment;

(c) Useful lives; and

(d) Depreciation methods.

74. **If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed:**

(a) **The effective date of the revaluation;**

(b) **Whether an independent valuer was involved;**

(c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**

(d) **The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and**

(e) **The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.**

75. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph (iv)-(vi).

76. Users of financial statements may also find the following information relevant to their needs:

(a) The carrying amount of temporarily idle property, plant, and equipment;

(b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use;

(c) The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with IPSAS 44; and

(d) When the historical cost model is used, the current value (current operational value or fair value) of property, plant, and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment (see paragraphs AG37-AG38)

77. **Where heritage property, plant, and equipment or a class of heritage property, plant, and equipment is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:**

    (a) **The difficulties in obtaining a reliable measurement that prevented recognition; and**

    (b) **The significance of the unrecognized heritage property, plant, and equipment in relation to delivery of the entity's objectives.**

78. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 69-76 and 79-84 will apply.

Current Value Measurement

79. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

    (a) **For property, plant, and equipment that are measured at current operational value or fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.**

    (b) **For fair value measurements using significant unobservable inputs (Level 3), or current operational value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

80. To meet the objectives in paragraph 79, an entity shall consider all the following:

    (a) The level of detail necessary to satisfy the disclosure requirements;

    (b) How much emphasis to place on each of the various requirements;

    (c) How much aggregation or disaggregation to undertake; and

    (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

    If the disclosures provided in accordance with this Standard are insufficient to meet the objectives in paragraph 79, an entity shall disclose additional information necessary to meet those objectives.

81. To meet the objectives in paragraph 79, an entity shall disclose, at a minimum, the following information for each class of property, plant, and equipment (see paragraph 82 for information on determining appropriate classes of property, plant, and equipment for current value measurement disclosures) measured at current operational value or fair value in the statement of financial position after initial recognition:

    (a) The current operational value or fair value measurement at the end of the reporting period;

    (b) If there has been a change in measurement basis (e.g., changing from current operational value to fair value), the entity shall disclose that change and the reason(s) for making it;

    (c) For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs. For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3);

    (d) For current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a

cost approach to a market approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using significant unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity;

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases, and sales (each of those types of changes disclosed separately);

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value estimated using significant unobservable inputs, the amount of the total gains or losses for the period in (i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those items of property, plant, and equipment held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period); and

(h) For fair value measurements categorized within Level 3 of the fair value hierarchy or for current operational value measurements estimated using significant unobservable inputs a narrative description of the sensitivity of the current operational value or fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower current operational value or fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value or fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the current operational value or fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).

82. For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of property, plant, and equipment (see paragraph 34) is required on the basis of (a) the measurement bases applied, and (b) the level of the fair value hierarchy within which the fair value

measurement is categorized, or the extent to which the current operational value uses observable or unobservable inputs.

The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of property, plant, and equipment for which disclosures about current operational value or fair value measurements should be provided requires judgment. A class of property, plant, and equipment will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position.

83. For each class of property, plant, and equipment measured on the historical cost basis in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 81(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using significant unobservable inputs, required by paragraph (d). For such property, plant, and equipment, an entity does not need to provide the other current value measurement disclosures required by this Standard.

84. An entity shall present the quantitative current value measurement disclosures required by this Standard in a tabular format unless another format is more appropriate.

Effective Date and Transition

Effective Date

85. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted for entities that apply IPSAS 43, IPSAS 44, and IPSAS 46 at or before the date of initial application of the Standard. If an entity applies this Standard for a period beginning before January 1, 2025, it shall disclose that fact.**

85A. **Paragraphs 64, 67, and 68 were amended by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

85B. **Paragraph 3 was amended by IPSAS 50, issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

85C. **Paragraph 25 was amended by *Amendments to IPSAS Standards: Specific IFRIC Interpretations*, issued in January 2025. An entity shall apply these amendments for annual periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies these amendments to financial statements for a period beginning before January 1, 2026, it shall disclose that fact.**

85D. **Paragraphs 79(a) and 81(d) are amended by Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

85E. **Paragraphs 3(e) and AG2 were amended by IPSAS 51, issued in January 2026. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

86. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

87. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3 except that:**

(a) **An entity may elect to measure heritage assets at their deemed cost when reliable cost information about these assets is not available at the date of application of this Standard.**

(b) **If, on initial application of this Standard, there is a difference between the previous carrying amount at fair value and the new carrying amount at fair value or current operational value, an entity shall recognize that difference as an adjustment to the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) without restatement of comparative information.**

88. **For entities that have previously applied IPSAS 17 (2006), *Property, Plant, and Equipment* the requirements of paragraphs 21–22 regarding the initial measurement of an item of property, plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**

Withdrawal of IPSAS 17 (2006)

89. This Standard supersedes IPSAS 17 issued in 2006. IPSAS 17 remains applicable until IPSAS 45, *Property, Plant, and Equipment* is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 45.

Scope (see paragraphs 2-4)

AG1. This Standard applies to all property, plant, and equipment including:

(a) Heritage;

(b) Infrastructure;

(c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and

(d) Weapons systems.

Heritage Assets

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, historical, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

AG3. Heritage assets typically have the following distinguishing characteristics:

(a) They have restrictions on their use and/or disposal;

(b) They are irreplaceable; and

(c) They have long and sometimes indefinite useful lives.

Infrastructure Assets

AG4. Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these assets were removed, the network or system may not achieve its service potential objective.

AG5. Infrastructure assets typically have the following distinguishing characteristics:

(a) They are networks or systems; and

(b) They have long useful lives.

AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include:

(a) Electricity transmission networks, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities;

(b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and

(c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

Weapons Systems

AG7. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems.

Definitions (see paragraph 5)

Property, Plant, and Equipment as Assets

AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment are an asset as defined in IPSAS 1, *Presentation of Financial Statements*. This is because to be recognized as an asset, an item of property, plant, and equipment must meet all three criteria of an asset: a resource, presently controlled by the entity and arose from a past transaction or other past event.

AG9. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective when those services contribute to achieving the entity's service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where an entity's objectives are to provide heritage-related services such as the appreciation and study of heritage, the entity holds heritage items to achieve those objectives and the heritage items have service potential and are resources from the entity's perspective. Similarly, infrastructure assets that are used to deliver public services (e.g., road networks or water systems) will be resources to an entity that holds them if those services contribute to achieving the entity's service delivery and other objectives.

AG10. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the resource is used to achieve its objectives; or

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

An entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG11. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances, an entity considers substance over form in determining whether it controls an asset.

Recognition (see paragraphs 6-10)

Spare Parts, Stand-By Equipment, and Servicing Equipment

AG12. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Standard when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory (see IPSAS 12, *Inventories*).

Subsequent Costs

AG13. Under the recognition principle in paragraph 6, an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of property, plant, and equipment.

AG14. Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building. Under the recognition principle in paragraph 6, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 62-68).

AG15. A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired, constructed, or developed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired, constructed, or developed.

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

AG16. An entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle in paragraph 6. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of paragraph 6 to determine whether or not it meets the recognition principle and should be recognized as an asset.

Initial Measurement (see paragraphs 11-23)

Elements of Cost

AG17. Examples of costs that are not costs of an item of property, plant, and equipment are:

(a) Costs of opening a new facility;

(b) Costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) Costs of conducting an operation in a new location or with a new class of purchasers (including costs of staff training);

(d) Administration and other general overhead costs; and

(e) Costs of day-to-day servicing or repairs and maintenance.

AG18. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, *Borrowing Costs*, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.

AG19. Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Subsequent Measurement (see paragraphs 24-61)

Current Value Model (Paragraphs 27-40)

AG20. After recognition, an item or part of an item of property, plant, and equipment whose current value can be measured in a faithfully representative manner may be carried at a revalued amount, being its:

(a) Current operational value; or

(b) Fair value;

at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Financial and Operational Capacity

AG21. The primary objective for which an entity holds an item or part of an item of property, plant, and equipment is an important consideration when determining the current value measurement basis. An item or part of an item of property, plant, and equipment held for its:

(a) Operational capacity supports the provision of services in future periods through physical and other resources. This requires information on the value of the item or part of an item of property, plant, and equipment as it is currently used by the entity. An item or part of an item of property, plant, and equipment held with the primary objective of service delivery is held for its operational capacity and is measured at current operational value; and

(b) Financial capacity provides an entity with the means to fund its activities. This requires information on the amount that would be received on the sale of the asset or in the revenue it generates in use. An item or part of an item of property, plant, and equipment held with the primary objective of generating a financial return is held for its financial capacity and is measured at fair value.

AG22. In certain instances, an item or part of an item of property, plant, and equipment may generate a financial return although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant

also treats a small amount of medical waste generated by other private hospitals on a commercial basis. In this instance, the disposal waste plant would be measured at current operational value.

AG23. In some cases, it may not be clear whether the intended primary objective of holding an item or part of an item of property, plant, and equipment is for its operational or financial capacity. Judgment is needed. An entity develops criteria so that it can exercise judgment consistently in concluding whether an item or part of an item of property, plant, and equipment is held primarily for its operational or financial capacity. When the intended primary objective of holding an item or part of an item of property, plant, and equipment cannot be determined, given the overall objectives of most public sector entities, the presumption is that an item or part of an item of property, plant, and equipment is held for its operational capacity.

Depreciation (see paragraphs 41-58)

AG24. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, it may be required to depreciate separately the substructure and the surface of a road. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft. If an entity acquires property, plant, and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

Depreciable Amount and Depreciation Period (see paragraphs 47-51)

AG25. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.

AG26. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

AG27. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* and the date when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

Finite and Indefinite Useful Lives (see paragraphs 52-55)

AG28. The useful lives of property, plant, and equipment, including buildings, are generally finite. However, there are circumstances in which property, plant, and equipment could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset could be considered to have an indefinite useful life, so long as those conditions continue to apply.

AG29. Given the history of rapid changes in technology, it will often be the case that computers and other property, plant, and equipment susceptible to technological obsolescence have short useful lives. Expected future reductions in the selling price of an item that was produced using property, plant, and equipment could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.

AG30. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water.

AG31. An entity that controls land that is being consumed as a result of, for example, mining or quarrying activities will need to consider the period over which economic benefits or service potential are expected to be derived from, and the effect of, carrying out those activities on the value of the land to determine the appropriate depreciable period and amount.

AG32. Where land is being lost or displaced as a result of, for example, coastline erosion, the entity will need to apply:

(a) The derecognition requirements in paragraphs 62-68 of this Standard; or

(b) The impairment requirement in IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets* depending on the circumstances.

Depending on the factors associated with the loss or displacement of land, an entity may need to consider the appropriateness of depreciating the land in future reporting periods, and should continue to assess for impairment in accordance with the requirements of this Standard.

Depreciation Method (see paragraphs 57-58)

AG33. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

AG34. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits or service potential of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

Depreciation – Useful Life of an Asset (see paragraphs 41-55)

AG35. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, economic, political, social, and legal factors may also affect the useful life. Technical or commercial obsolescence and wear and tear while an asset remains idle may also result in the diminution of the economic benefits or service potential that might otherwise have been obtained from the asset. The useful life is the shorter of the periods identified through consideration of these factors. Consequently, the following factors are considered in determining the useful life of an asset:

(a) Expected usage of the asset, which is assessed by reference to the asset's expected capacity or physical output;

(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle;

(c) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;

(d) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset;

(e) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases;

(f) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

(g) The stability of the industry in which the asset operates and changes in the market or government and service recipients' demand for the products or services output from the asset;

(h) Expected actions by competitors or potential competitors; and

(i) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

AG36. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment when Cost or Current Value Cannot be Measured Reliably (see paragraphs 77-78)

AG37. The disclosures identified in paragraph 77 for unrecognized heritage property, plant, and equipment should ensure that, when read in the context of information about recognized property, plant, and equipment, the financial statements provide useful and relevant information about the entity's overall holding of property, plant, and equipment, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG38. These disclosures may be presented in aggregate for groups or classes of property, plant, and equipment, provided this aggregation does not obscure significant information.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 45.

Introduction

BC1. IPSAS 17, *Property, Plant, and Equipment* was drawn primarily from International Accounting Standard (IAS) 16 (Revised 2003), *Property, Plant, and Equipment*. The IPSASB reviewed IASB's improvements to IFRS and narrow scope amendments to IAS 16 (up to May 2020) and generally concurred with the IASB's reasons for revising the IAS and with the amendments made with the exception noted in paragraphs BC24. The IPSASB revised IPSAS 17 to reflect these improvements and amendments, as appropriate.

BC2. After considering responses to the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, and constituents' feedback on infrastructure assets the IPSASB concluded that:

(a) IPSAS 17 should fully apply to heritage assets that are property, plant, and equipment; and

(b) Additional authoritative and non-authoritative guidance should be included in IPSAS 45 to clarify its application to heritage and infrastructure assets.

This resulted in the development of ED 78, *Property, Plant, and Equipment* proposing the replacement of IPSAS 17.

Background

Development of ED 78, Property, Plant, and Equipment

BC3. In March 2020, the IPSASB had agreed that heritage assets should be recognized as property, plant, and equipment when they satisfy the IPSAS 17 definition and the recognition criteria (see paragraph 6). Because heritage assets are subsets of property, plant, and equipment and should be treated in accordance with the principles in IPSAS 17.

BC4. The IPSASB developed ED 78 to update its existing property, plant, and equipment guidance in IPSAS 17 to help constituents apply the principles to heritage and infrastructure assets. To this effect, additional authoritative, and non-authoritative guidance was issued. The IPSASB notes that such guidance is applicable to all property, plant, and equipment.

Heritage Assets: Additional Guidance

BC5. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional authoritative guidance to support the application and implementation of this Standard's principles to heritage assets. On the basis that no principles existed to address these topics, the IPSASB decided to add authoritative guidance on:

(a) Characteristics of heritage assets (see paragraphs AG2-AG3);

(b) Heritage assets as a resource and assessment of control (see paragraphs AG9-AG11);

(c) Depreciation (see paragraphs 52-55 and AG28); and

(d) Disclosures on unrecognized heritage assets (see paragraphs 77-78 and paragraphs AG37-AG38).

BC6. When developing ED 78, the IPSAS had considered whether IPSAS 45 should include additional non-authoritative guidance to enhance the consistency of entities' application and implementation of IPSAS 45 to heritage assets. On this basis, the IPSASB decided to add non-authoritative guidance on:

(a) Control (see paragraphs IG6-IG8);

(b) Recognition related to subsequent expenditure on unrecognized heritage assets (see paragraph IG9);

(c) Capitalization thresholds (see paragraphs IG10-IG14);

(d) Measurement at current value (see paragraphs IG18-IG21); and

(e) Depreciation related to useful lives (see paragraphs IG30-IG33).

BC7. In developing IPSAS 45, the IPSASB decided to include additional non-authoritative guidance as noted in this Basis for Conclusions:

(a) Measurement of Heritage Assets (see Decision Tree in the Implementation Guidance); and

(b) Measurement at current value (see paragraphs IG15-IG17).

Infrastructure Assets: Additional Guidance

BC8. When developing ED 78, the IPSASB had considered whether IPSAS 45 should include additional guidance to enhance the consistency of entities' application and implementation of IPSAS 45 to infrastructure assets. The IPSASB decided to add authoritative guidance on:

(a) Characteristics and examples of infrastructure assets (see paragraphs AG4-AG6);

(b) Assessment of control (see paragraphs AG10-AG11); and

(c) Identifying parts of infrastructure assets (see paragraph AG24).

BC9. When developing ED 78, the IPSAS had considered whether IPSAS 45 should include non-authoritative guidance to enhance the consistency of the entities' application and implementation of IPSAS 45. On this basis, the IPSASB decided to add non-authoritative guidance on:

(a) Control of land under or over infrastructure assets (see paragraphs IG1-IG5 and IE1-IE5);

(b) Capitalization thresholds (see paragraphs IG10-IG14);

(c) Valuing land under or over infrastructure assets (see paragraphs IG23-IG25);

(d) Identifying parts of infrastructure assets (see paragraphs IG34-IG38);

(e) Use of information in asset management plans for financial reporting (see paragraphs IG39-IG40); and

(f) Under-maintenance of assets (see paragraphs IG41-IG44).

No Additional Guidance

BC10. When developing ED 78, on the basis that sufficient guidance existed, the IPSASB had concluded that no additional guidance was needed in IPSAS 45 to address:

(a) A separate definition for infrastructure assets because they are property, plant, and equipment;

(b) Spare parts for infrastructure assets;

(c) Costs to dismantle infrastructure assets;

(d) Separately accounting for land under or over infrastructure assets;

(e) Renewals accounting;

(f) Impairment; and

(g) Derecognition.

The IPSASB included its rationale for not adding guidance to address these issues in the Basis for Conclusions to inform constituents that the IPSASB had considered these issues.

IPSAS 45, Property, Plant, and Equipment

BC11. This Standard replaces IPSAS 17, *Property, Plant, and Equipment* and is based on IAS 16, *Property, Plant, and Equipment*. In accordance with existing practice, this Basis for Conclusions outlines only those areas where IPSAS 45 departs from the main requirements of IAS 16[2] or where the IPSASB considered further guidance is needed to enhance consistent application of principles to address a prevalent public sector specific issue.

BC12. When developing this Standard, the IPSASB decided to relocate IPSAS 17 guidance that supports core principles to the application guidance, generic measurement guidance to IPSAS 46, *Measurement*, and add guidance for accounting for heritage assets and infrastructure assets in scope of the Standard. Responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the structure or principles in IPSAS 45.

Scope

Remove the Heritage Scope Exclusion Paragraphs

BC13. The IPSASB concluded that the principles in IPSAS 45 should fully apply to heritage assets and decided to remove the scope exclusion for heritage assets, on the basis that:

(a) Recognition of heritage assets will increase the transparency of heritage-related financial information so that users are better able to hold entities accountable for their heritage-related decisions, particularly those that support heritage preservation;

(b) Their heritage nature does not prevent heritage items being assets for financial reporting purposes;

(c) Many heritage items are assets and should be recognized in the statement of financial position when they meet the IPSAS 1, *Presentation of Financial Statements* recognition criteria of an asset;

(d) Since the heritage nature of an item is not, by itself, a reason for special financial reporting requirements, a separate heritage focused IPSAS is unnecessary; and

(e) Where heritage items are within the scope of another IPSAS, that Standard should apply (for example, IPSAS 31, *Intangible Assets* should be applied for heritage assets that are intangible in nature).

Move List of Property, Plant, and Equipment to Application Guidance

BC14. The IPSASB noted that the list of different types of property, plant, and equipment included in the scope of IPSAS 17 was more in the nature of application guidance than that of principles to be included in core text. On this basis, the IPSASB had decided that the list and related descriptions should be moved to the application guidance.

Definition of Property, Plant, and Equipment

Definition of Property, Plant, and Equipment

BC15. The IPSASB had noted that the definition of property, plant, and equipment in IPSAS 17 referred to 'tangible items' instead of 'tangible assets' and that a strict application of this definition could lead to the recognition of an item that did not meet the definition of an asset in IPSAS 1 *or* the *Conceptual Framework*[3]. The lack of

[2] The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's Comprehensive Subscription Service can view the Bases for Conclusions on the IASB's website at http://www.iasb.org.

[3] An asset is defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and IPSAS 1, *Presentation of Financial Statements* and contains three common components: resource(s), control and past event.

reference to ‘asset’ caused confusion in practice because there are instances when it is uncertain whether an item is a resource or it is controlled by the entity. To address the uncertainty, the IPSASB had decided to:

(a) Replaced the term “tangible items” with “‘tangible assets,” in the definition of property, plant, and equipment (see paragraph 5);

(b) Added authoritative guidance on resource and control (see paragraphs AG9 and AG10-AG11 respectively); and

(c) Added non-authoritative implementation guidance and illustrative examples on control (see paragraphs IG1-IG8 and IE1-IE5 respectively).

BC16. One of the responses received to ED 78 noted that paragraphs AG8-AG15 of ED 78 were a duplication of content found in the *Conceptual Framework* and suggested removing the content and instead, make a cross-reference to the *Conceptual Framework*. The IPSASB discussed that this authoritative guidance was added to ED 78 to ensure consistency of principle application, specifically to help an entity determine whether an item met all three criteria of the definition of an asset, but specifically two of the three criteria of an asset, resource and control. Rather than removing the guidance and adding a cross-reference to the *Conceptual Framework*, the IPSASB decided to keep guidance on the two key topics (i.e., whether a heritage item is a resource and assessment of control for both heritage and infrastructure items).

Characteristics of Heritage and Infrastructure Assets

BC17. The IPSASB had decided neither heritage nor infrastructure assets needed to be defined, because they were subsets of property, plant, and equipment and therefore, the principles in this Standard apply to heritage and infrastructure assets.

BC18. Based on responses to the Heritage CP and constituents’ comments related to infrastructure, the IPSASB had concluded that ED 78 should include application guidance, including specific characteristics of heritage and infrastructure, to help entities identify their heritage assets (see paragraphs AG2-AG3) and infrastructure assets (see paragraphs AG4-AG6) from other property, plant, and equipment. The IPSASB had decided to only include characteristics that distinguished heritage and infrastructure assets from other property, plant, and equipment, and which presented complexities in the application and implementation of the principles in ED 78, as opposed to including an exhaustive list of the characteristics of heritage and infrastructure assets.

BC19. A few responses to ED 78 recommended the IPSASB to expand (a) to reflect that heritage assets also have restrictions on their disposal, which present complexities in the application and implementation of ED 78 principles, specifically on the measurement of heritage assets. The IPSASB agreed that restrictions on the disposal of heritage assets, similarly to restrictions on their use, present complexities in the application and implementation of IPSAS 45 principles, although not a unique characteristic to heritage assets.

BC20. In developing IPSAS 45, the IPSASB decided to expand the characteristics for heritage assets and to retain the characteristics for infrastructure assets from ED 78 in IPSAS 45. Except as noted in BC19, responses to ED 78 on heritage and infrastructure assets characteristics did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

BC20A During the development of IPSAS 51, *Tangible Natural Resources Held for Conservation*, the IPSASB decided to amend the description of heritage assets to better distinguish between heritage assets which are not naturally occurring and naturally occurring heritage assets held for conservation. As a result, the description of heritage assets in paragraph AG2 was amended to remove the references to environmental and natural features.

Recognition

Deemed Cost of Non-Exchange Transactions

BC21. When developing ED 78, the IPSASB decided to replace the terminology of 'fair value' on the initial measurement of a non-exchange transaction of an item or property, plant, and equipment with 'deemed cost'. This was proposed for alignment with the initial measurement principles in IPSAS 46.

BC22. A response to ED 78 suggested a definition of deemed cost be included in IPSAS 45. The IPSASB discussed that deemed cost for assets acquired in a non-exchange transaction is fair value, in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards.* The IPSASB noted that ED 78's proposal added unintended complexity as it now required an entity to review IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards* to understand which measurement basis to apply for deemed cost of a non-exchange transaction at recognition. However, the proposal was not intended to change the initial measurement of Plant, Property, and Equipment acquired in a non-exchange transaction.

BC23. Following the development of current operational value in IPSAS 46, the IPSASB discussed how to measure 'deemed cost' and concluded that fair value or current operational value are appropriate. The IPSASB further decided the guidance on deemed cost would be included in IPSAS 46.

Weapons Systems

BC24. When IPSAS 17 was revised as a result of Part III of *Improvements to IPSAS 2015,* the IPSASB had considered that Government Finance Statistics (GFS) reporting guidelines use the term "weapons systems" to comprise items that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. At that time, the IPSASB had concluded that replacing the IPSAS term "specialist military equipment" with the GFS term "weapons systems" and including a description would clarify the applicability of IPSAS 17 while increasing consistency with GFS reporting guidelines. In developing IPSAS 45, the IPSASB concluded that the same principles should apply and continued to use the term "weapons systems" with a description (see paragraph AG7).

Heritage Assets: The Operational/Non-Operational Distinction

BC25. The IPSASB had considered whether only those heritage assets that are used for non-heritage purposes, called "operational" heritage assets, should be recognized. Operational heritage assets include, for example, a heritage bridge that functions as a bridge or a heritage railway station that is used as a railway station. Some national jurisdictions use the term "non-operational" to describe heritage assets that are used purely for heritage purposes. For example, museum collections held for public appreciation are non-operational heritage assets. Some constituents argued that non-operational heritage assets should not be recognized.

BC26. However, the IPSASB had concluded that both operational and non-operational heritage items can be assets, since both can meet the IPSAS 1's definition of an asset (resource, control, past event). On this basis, the IPSASB had decided that the distinction is not relevant to a decision on whether or not to recognize a heritage item as an asset.

Spare Parts for Infrastructure Assets

BC27. The IPSASB considered whether ED 78 provided sufficient guidance on the accounting treatment of spare parts for infrastructure assets. The IPSASB had concluded that accounting for spare parts is a generic issue and that sufficient authoritative guidance existed in ED 78 for infrastructure asset spare parts that meet the definition of property, plant, and equipment, and in IPSAS 12, *Inventories* for spare parts that meet the definition of inventory.

Capitalization Thresholds

BC28. The IPSASB considered the issues identified by constituents with respect to establishing capitalization thresholds for costs related to infrastructure assets. The IPSASB had concluded that this issue applies broadly to property, plant, and equipment, and that any guidance should also apply broadly, and not be restricted to applying only to infrastructure assets.

BC29. The IPSASB had noted that this issue is generally considered to be a practical issue that is best addressed by management. Entities' management consider their specific assets holdings, and apply the need to meet users' information needs, materiality, and cost-benefit. However, the IPSASB concluded that there is scope for guidance on the factors for consideration when entities set their capitalization thresholds. On this basis, the IPSASB decided to add implementation guidance (see paragraphs IG10-IG14) on the factors to consider when establishing capitalization thresholds for property, plant, and equipment.

Disclosures Related to Unrecognized Heritage Property, Plant, and Equipment

BC30. When developing ED 78, the IPSASB had considered the issues identified by constituents with respect to disclosures related to unrecognized heritage assets. Being able to measure an asset in a way that achieves the qualitative characteristics and takes account of the constraints on information included in General Purpose Financial Statements (GPFSs) is necessary for recognition of an asset in the financial statements. ED 78 stated, in paragraph 6, that property, plant, and equipment must be measured reliably to be recognized. The IPSASB had agreed with constituents that heritage assets may present measurement difficulties which prevent their recognition, but that information on such assets could be important to meet users' needs.

BC31. In considering the need for additional disclosures when heritage property, plant, and equipment is not recognized, the IPSASB had noted that, as explained in the *Conceptual Framework*, disclosures in the notes to the financial statements:

(a) Can provide information on elements that cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting;

(b) Are appropriate when knowledge of the item is relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting; and

(c) May include items that do not meet the recognition criteria but are important to an understanding of the entity's finances and ability to deliver services.

BC32. The IPSASB had noted that there were cases where the cost or current value of heritage property, plant, and equipment was not able to be measured reliably and therefore, the assets could not be recognized. Information about the contribution of such assets to the delivery of the entity's objectives would nonetheless be useful to users of the financial statements.

BC33. The IPSASB had decided to include a requirement for additional disclosures on heritage property, plant, and equipment that is not recognized because it cannot be measured reliably on the basis that such information contributes to:

(a) Achievement of the objectives of financial reporting; and

(b) Users' understanding of the entity's finances and ability to deliver services for accountability and decision-making purposes.

Therefore, ED 78 included paragraph 77, which established that additional disclosures were required, and application guidance for such disclosures was added in paragraphs AG37-AG38.

BC34. Responses to ED 78 requested for the disclosure requirement to be expanded to either infrastructure assets or to all property, plant, and equipment that is not recognized because it cannot be measured reliably. The IPSASB noted that measurement challenges, which prevent recognition of a tangible asset, were specific to heritage assets.

BC35. In developing IPSAS 45, the IPSASB decided to retain the ED 78 proposal in IPSAS 45 because the responses received to ED 78 did not identify information the IPSASB had not previously considered or a public sector specific issue or challenge when applying the principles in IPSAS 45.

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

BC36. The IPSASB considered constituents' views on additional guidance on decisions to capitalize or expense subsequent expenditure on unrecognized heritage assets. The IPSASB concluded that there is sufficient authoritative guidance addressing heritage-related concerns. The IPSASB's decision to not have a heritage scope exclusion in ED 78, resulted in the Standard's authoritative guidance fully applying to heritage assets. Therefore, heritage assets that satisfy the recognition criteria shall be recognized. Given measurement difficulties associated with heritage assets, however, the IPSASB acknowledged that some heritage assets may not be able to be recognized. The IPSASB decided that application guidance should be added (see paragraph AG20) to establish that paragraph 6's principles apply to the recognition of subsequent expenditure on unrecognized heritage assets. The IPSASB further decided to include additional implementation guidance (see paragraph IG9), which is needed to support decisions on when to capitalize or expense subsequent expenditure on unrecognized heritage property, plant, and equipment.

Measurement

Measurement of Heritage Assets

BC37. The IPSASB received requests for additional non-authoritative guidance for the recognition and measurement of heritage assets. The IPSASB decided to add implementation guidance, which walks an entity through the recognition criteria, in paragraph 6, and includes initial measurement considerations to help an entity in the recognition and measurement of heritage assets.

Initial Measurement

BC38. A response to ED 78 noted a cross reference to ED 77, *Measurement* on initial measurement stating an entity shall apply ED 77 when measuring an item of property, plant, and equipment. The respondent asked the IPSASB to clarify the scope of each standard and on the terminology differences for initial measurement between ED 78 and ED 77, 'at cost' and 'at transaction price' respectively.

BC39. The IPSASB discussed that terminology in IPSAS 45 was carried forward from IPSAS 17, to reflect continued alignment with IAS 16 terminology and that this core principle from IPSAS 17 remains unchanged. Additionally, the IPSASB noted that ED 78 contained specific initial measurement guidance (see paragraph 11) and guidance in ED 77 is generic, therefore not developed to replace existing detailed guidance in any specific IPSAS.

BC40. In developing IPSAS 45, the IPSASB decided to:

(a) Retain IPSAS 17 terminology 'at cost' for initial measurement;

(b) Remove the cross reference from IPSAS 45, *Property, Plant, and Equipment* to IPSAS 46 on initial measurement of property, plant, and equipment to remove the circularity between these standards; and

(c) Revise paragraph 5 in IPSAS 46 to reflect that when specific guidance on initial and subsequent measurement is included in an individual IPSAS, such guidance shall be applied.

Elements of Cost

Costs to Dismantle Infrastructure Assets

BC41. The IPSASB considered whether sufficient guidance existed for accounting for costs to dismantle infrastructure assets when there is a need to highlight the impact of the future environmental or decommissioning costs on the value of acquired property, plant, and equipment, including infrastructure assets.

BC42. The IPSASB decided that this issue was not specific to infrastructure assets, and no additional guidance was necessary, because sufficient authoritative guidance existed in:

(a) ED 78 that stated that the cost of an item of property, plant, and equipment included the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and

(b) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* that requires a public sector entity to recognize a provision for decommissioning costs to the extent that the public sector entity is obliged to rectify damage already caused.

Subsequent Measurement

Accounting Policy Choice

BC43. The IPSASB considered whether additional guidance was necessary to assist in making the accounting policy choice of subsequently measuring classes of property, plant, and equipment either on a historical cost or current value model.

BC44. The IPSASB concluded no additional guidance was needed. Management should continue to apply its judgment in choosing an accounting policy that results in information that:

(a) Is relevant to the accountability and decision-making needs of users;

(b) Faithfully represents the financial position, financial performance, and cash flows of the entity;

(c) Meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability; and

(d) Considers the constraints on information included in GPFSs and the balance between the qualitative characteristics.

Current Value Model

Measurement Bases

BC45. During the development of IPSAS 46, the IPSASB had considered concerns raised by respondents with regard to the application of fair value in the public sector. While respondents agreed fair value was applicable in some circumstances, they raised concerns about its applicability to public sector assets held for their operational capacity. Respondents suggested it was inappropriate to apply fair value to those assets because the following concepts are not applicable:

(a) Highest and best use; and

(b) Maximizing the use of market participant data.

BC46. The IPSASB had decided to address respondents' concerns by developing a public sector specific measurement basis – Current Operational Value. This measurement basis addressed the measurement of assets held for their operational capacity.

BC47. When developing ED 78, the IPSASB had proposed that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value.

BC48. Some responses to ED 78 raised concerns about basing the measurement basis on management's intent, particularly as it will reduce the comparability of financial statements and reduce consistency of principle application. These respondents were of the view that the selection between measurement bases should be driven by facts and circumstances, such as the reason why the asset is held, and that a change between measurement bases is only appropriate when there is a change in the primary objective for which the entity holds the asset.

BC49. Other responses to ED 78 requested additional non-authoritative guidance on when a change between current value measurement bases was appropriate and how to make the selection between measurement bases, as it may be difficult to determine whether an asset is held for operational or financial capacity (for example, a mixed-use office building) if the measurement bases are applied to an entire class of property, plant, and equipment.

BC50. The IPSASB acknowledged that current operational value was developed to address a public sector specific need for a measurement basis that was more representative of the current value of assets held for their operational capacity in the public sector. The IPSASB further discussed, as noted in (a) and (b), that it was inappropriate to apply fair value concepts of 'highest and best use' and 'maximizing the use of market participant data' for assets held for their operational capacity.

BC51. The IPSASB agreed that it would seem contradictory for the decision of measurement basis in the current value model to be a free choice, considering the guidance included in paragraph 29 and AG26-AG27 of ED 78 and the reason behind the development of current operational value as a measurement basis for public sector assets held for their operational capacity.

BC52. The IPSASB also discussed whether the measurement bases should be applied to an entire class of property, plant, and equipment or whether it should be applied at the item or part of an item of property, plant, and equipment level, taking into consideration mixed-use assets (BC49). Additionally, the IPSASB considered whether a cross reference from IPSAS 45 to IPSAS 46 was needed to help entities on the selection of current value measurement bases.

BC53. The IPSASB concluded that

(a) An item or part of an item of property, plant, and equipment held for its operational capacity shall be measured at its current operational value, and when it is held for its financial capacity, it shall be measured at fair value (see paragraph 27);

(b) Deemed cost could be measured using either current operational value or fair value;

(c) While measurement models are to be applied to an entire class of property, plant, and equipment, the measurement bases are to be applied to an item or part of an item of property, plant, and equipment (see paragraphs 27-28, AG20-AG23 and IG15);

(d) To include additional implementation guidance on when a change between current value measurement bases is appropriate (see paragraphs IG16-IG17); and

(e) A cross reference from IPSAS 45 to IPSAS 46 is not necessary because application guidance on whether property, plant, and equipment is held for operational or financial capacity is included in this Standard (see paragraphs AG20-AG23).

Current Value Measurement of Heritage Assets

BC54. The IPSASB considered constituents' views on the need for guidance on application of the current value model to heritage assets. The IPSASB decided that additional implementation guidance is needed on measurement at current value when heritage assets are viewed as irreplaceable, and have restrictions on their use to ensure consistent application and implementation of this Standard's principles (see paragraphs IG19-IG22).

Valuing Land Under or Over Infrastructure Assets

BC55. The IPSASB considered whether existing guidance in IPSAS 17 addressed the approach to valuing land under or over infrastructure assets such as land under roads and railways.

BC56. The IPSASB decided to add non-authoritative implementation guidance to this Standard to clarify the existing principles related to the valuation of land under or over infrastructure assets (see paragraphs IG23-IG25).

Depreciation

Finite and Indefinite Useful Lives

BC57. When developing this Standard, the IPSASB noted that generally, land has an indefinite useful life and therefore, is not depreciated. Exceptions, where land should be depreciated include:

(a) Land is being consumed due to depletion (such as mines and quarries or landfill sites); or

(b) Land is being lost or displaced as a result of natural phenomena such as climate change (for example, rock or soil erosion, or desertification).

BC58. The IPSASB decided that the IPSAS 17 discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated (see paragraphs 52-55). During its consideration of this issue and those raised by heritage assets' useful lives, the IPSASB decided that the terminology of finite and indefinite useful lives, as used in IPSAS 31, should be used in ED 78. This provided consistent terminology across IPSAS when considering useful lives for asset depreciation.

BC59. The IPSASB further decided that the revised core text and related application guidance should also provide guidance to address situations where items of property, plant, and equipment (e.g., heritage assets, discussed further below) could have indefinite useful lives and therefore, should not be depreciated.

BC60. The IPSASB considered that most non-land property, plant, and equipment have finite useful lives. On this basis, the IPSASB decided to include a rebuttable presumption that non-land property, plant, and equipment has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land property, plant, and equipment as having an indefinite useful life (see paragraph 52).

Depreciation of Heritage Assets

BC61. When developing ED 78, the IPSASB had concluded based on responses to the CP, *Financial Reporting for Heritage in the Public Sector*, that the same depreciation requirements applied to other types of property, plant, and equipment shall apply to heritage assets. Where respondents disagreed with that approach, some argued against depreciation, while others stated that guidance was needed on how to estimate heritage assets' useful lives and identify heritage assets for which there is no depreciation expense. On the basis that

many heritage assets were consumed over time, as they delivered services and/or economic benefits, the IPSASB had concluded that heritage assets can be depreciable assets.

BC62. However, the IPSASB had further concluded that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they were held. On this basis, the IPSASB had decided that useful lives should be clarified to apply to situations where property, plant, and equipment have indefinite useful lives.

BC63. To support entities' assessments of whether a heritage asset has a finite or indefinite useful life, the IPSASB had decided to add non-authoritative implementation guidance (see paragraphs IG30-IG33).

Identifying Parts of Infrastructure Assets that Should Be Separately Depreciated

BC64. The IPSASB considered whether it was a challenge to determine the appropriate unit of account when identifying significant parts of infrastructure assets that should be separately depreciated.

BC65. The IPSASB noted the existing principles are clear that an asset could have different units of account for depreciation because parts of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately. This principle holds true for infrastructure assets, but judgment needs to be exercised in determining or identifying the units of account, which may be separate assets in their own right (see paragraph 8).

BC66. The IPSASB decided to revise the example in paragraph AG6 which listed a number of assets (such as curbs and channels, pavements and bridges) that make up the road system as the units of account or parts that should be identified for separate recognition and depreciation to illustrate the principle of depreciating separately the parts of items of property, plant, and equipment at the appropriate level.

BC67. The IPSASB acknowledged that the separate units of account described in the example may be relevant in some jurisdictions but considered that jurisdictions will apply judgment in determining the appropriate units of accounts for their circumstances.

BC68. The IPSASB decided to add implementation guidance (see paragraphs IG34-IG38).

Annual Impairment Tests for Property, Plant, and Equipment with Indefinite Useful Lives

BC69. The IPSASB had decided that where an entity has assessed property, plant, and equipment as having indefinite useful lives it is important that the assets be reviewed regularly for indicators of impairment. On this basis the IPSASB decided to insert a requirement for annual reviews for indicators of impairment applied to such assets into ED 78 (see paragraph 56.

Separately Accounting for Land and Infrastructure Assets

BC70. The IPSASB considered the issue of whether land and infrastructure assets are separate assets that should be separately accounted for.

BC71. The IPSASB decided that no additional authoritative guidance should be included in ED 78 because the guidance is clear that:

(a) Land and buildings are separable assets and are accounted for separately (e.g., separate recognition and measurement) even when they are acquired together (see paragraph 50); and

(b) Land, buildings, roads and electricity transmission networks are examples of separate classes of property, plant, and equipment that should be separately disclosed (see paragraphs 34 and 69).

Renewals Accounting

BC72. The IPSASB considered whether "renewals accounting" was an appropriate technique to estimate depreciation of property, plant, and equipment when these are managed in accordance with a detailed asset management plan.

BC73. The IPSASB concluded there is no definitive "renewals accounting" method and that this technique should not be used in its literature to estimate depreciation of property, plant, and equipment given the numerous interpretations across different jurisdictions.

Use of Information in Asset Management Plans for Financial Reporting

BC74. When developing this Standard, the IPSASB had noted that many public sector entities have asset management plans that facilitate the proper management of an item of property, plant, and equipment over its life cycle. These asset management plans are usually developed by qualified experts and focus on the operational aspects of the item of property, plant, and equipment.

BC75. The IPSASB noted that, where these asset management plans are kept up to date by qualified experts and the information is reliable, these plans could provide detailed information relevant for accounting for property, plant, and equipment.

BC76. The IPSASB decided to add implementation guidance to clarify when asset management plans might provide information useful for financial reporting purposes when accounting for property, plant, and equipment (see paragraphs IG39-IG40).

Impairment

Liabilities for Future Preservation/Maintenance of Heritage and Infrastructure Assets

BC77. When developing this Standard, the IPSASB considered whether an entity's intention to preserve and/or maintain heritage and infrastructure assets could give rise to liabilities. For a liability to exist the entity must have an unavoidable present obligation (i.e. little or no realistic alternative to avoid) to incur future expenditure to an external party.

BC78. While acknowledging that entities who hold heritage and infrastructure assets often intend to preserve and/or maintain them and there may be expectations on the entity to do so, the IPSASB concluded that neither intentions nor expectations are sufficient to establish a present obligation.

BC79. The IPSASB concluded no liability arises from the entity's plan and/or intention to preserve and/or maintain heritage and infrastructure assets, unless there were arrangements in place that create an obligation to an external party for the entity.

Impairment of Heritage and Infrastructure Assets

BC80. The IPSASB considered if sufficient guidance existed on whether an infrastructure asset is impaired when one part of the network or system becomes damaged or inoperable. The IPSASB also considered whether additional guidance is needed to address the impairment of heritage assets.

BC81. The IPSASB decided no additional guidance is necessary because sufficient authoritative impairment guidance exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, to adequately address the impairment of both heritage and infrastructure assets, including guidance for entities to determine when a part of the network or system was impaired.

Under-Maintenance of Assets

BC82. The IPSASB considered the issue that guidance did not articulate whether “backlog maintenance” or “deferred maintenance” should be recognized in the financial statements.

BC83. The IPSASB had decided not to use the terms, “backlog maintenance” or “deferred maintenance” because the terms have several interpretations and applications across different jurisdictions. The IPSASB clarified that the issue highlighted by constituents related to the “under-maintenance of assets”.

BC84. Even though IPSAS 17 principles are clear on the accounting for assets that are “under-maintained”, the IPSASB decided to add implementation guidance to clarify the accounting for “under-maintenance of assets” in ED 78 (see paragraphs IG41-IG44).

Recoverable Amount

BC85. IAS 16 defines recoverable amount as “the higher of an asset’s fair value less costs of disposal and its value in use.” IPSAS 17 refers to the IPSAS 26 definition of recoverable amount which is defined as “the higher of an asset’s or cash generating unit’s fair value less costs to sell and its value in use.” The definition in IPSAS 17 is the same as in IPSAS 26 but differs slightly from the definition in IAS 16. In developing IPSAS 45*,* the IPSASB noted that this departure from IAS 16 on the definition of recoverable amount is still applicable in IPSAS 45.

Derecognition

Derecognition of Infrastructure Assets

BC86. When developing this Standard, the IPSASB had considered whether sufficient derecognition guidance with respect to accounting for infrastructure assets existed. The IPSASB had noted the derecognition issue arose because parts of infrastructure assets were constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.

BC87. The IPSASB decided not to add additional derecognition guidance in this Standard because sufficient authoritative derecognition guidance exists and the challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appeared administrative and related to record keeping.

Presentation—Display and Disclosure

Heritage: Focus on Information in the Financial Statements

BC88. When developing this Standard, the IPSASB noted that some jurisdictions disclosed supplementary information about heritage assets as a substitute for recognizing heritage assets in the financial statements. Supplementary disclosures may include qualitative information that is not commonly included in the financial statements. This type of information could be useful for broader accountability purposes such as reporting on an entity’s heritage-related service performance.

BC89. The IPSASB concluded that it would focus on guidance related to the financial statements on the basis that the *Recommended Practice Guidelines* (RPG) provides sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements. The RPG Guidelines allow entities to align heritage-related supplementary information to the specific information needs arising from their heritage holdings, heritage-related objectives, and national or local context.

Transitional Provision

BC90. When developing ED 78, the IPSASB had decided that IPSAS 45 shall be applied retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except that an

entity may elect to measure heritage assets at current value when reliable cost information for these assets was not available. In developing IPSAS 45, the IPSASB acknowledged that an additional transitional provision was needed for the initial application of IPSAS 45 current value measurement bases. The IPSASB decided to include additional authoritative guidance reflecting that rather than restating comparative periods, an entity shall recognize the effect of initially applying current operational value and fair value basis in the current value model as an adjustment to the opening accumulated surplus or deficit at the date of initial application of IPSAS 45 (see paragraph (b)).

Revisions of IPSAS 45 as a result of *Amendments to IPSAS Standards: Specific IFRIC Interpretations*

BC91. In September 2023, the IPSASB initiated a narrow scope project to consider seven IFRIC and SIC Interpretations that were issued by the IFRS Interpretations Committee, but had not yet been considered by the IPSASB, to determine their applicability to the public sector. In its assessment, the IPSASB considered whether public sector entities may face similar application issues, and whether incorporating guidance based on the Interpretations into IPSAS would help clarify the application of existing accounting principles.

BC92. The IPSASB reviewed the requirements of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, first issued by the IASB in 2004, and the IFRS Interpretations Committee's considerations in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

BC93. In April 2024, the IPSASB published Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations*, which proposed to add guidance to IPSAS 45 to direct users to relevant guidance in IPSAS 19. The IPSASB received strong constituent support for these proposals. Therefore, it decided to amend IPSAS 45 to incorporate the proposed guidance.

Revision of IPSAS 45 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC94. The IPSASB replaced the term 'valuation techniques' with the term 'measurement techniques' for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 45.

Definition of Property, Plant, and Equipment

Assessment of Control

IG1. **Assessing Control:** An entity controls a resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. Paragraph AG10 identifies the indicators of control as follows:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the resource is used to achieve its objectives; or

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

IG2. **Control over tangible items**: This implementation guidance focuses on control over items of property, plant, and equipment, where the resource is represented by a tangible item. Intangible assets arising from a loan, lease or other type of "right to use" are not addressed in this implementation guidance because they are outside of IPSAS 45's scope.

IG3. **Apply judgment**: The entity applies judgment to the facts of each situation when:

(a) Assessing the existence of indicators of control; and

(b) Reaching a view on whether or not control exists.

Control of Land Under or Over Property, Plant, and Equipment

Property, plant, and equipment can be built on land that is fundamental to the operation of the item but is owned by another entity. For example, State or Municipal Governments may construct road networks on land that is owned by another level of government. Should the entity that controls the property, plant, and equipment also recognize the land?

IG4. Where an item of property, plant, and equipment is built on land owned by another level of government, legal ownership of that land will not be held by the entity constructing the property, plant, and equipment. However, legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it.

IG5. When assessing whether land, owned by another level of government, under an item of property, plant, and equipment is controlled by the entity, the entity considers the rights it has to continue to operate the item of property, plant, and equipment. If the ongoing operation of the item of property, plant, and equipment is dependent on the other level of government continuing to grant the entity access to the land, it is unlikely the entity controls the land.

Control over Items in a Heritage Collection

Does an entity have control over items in its heritage collection, when it only has the right to hold the items temporarily, for a defined period under an agreement (or agreements) with another entity (or entities) or individual (group of individuals)?

IG6. No. The entity does not have control over these items in its heritage collection. Applying the application guidance in IPSAS 45 and judgment to the facts of the situation the entity does not have control over the resource represented by the items. This is indicated by the entity only holding the item temporarily, for a defined period. The entity does not have the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives. However, another Standard could apply, for example one that addresses leases or similar arrangements, which includes intangible rights to use a tangible resource within its scope.

Does an entity have control over items in its heritage collection, when it does not have legal ownership but has the right to hold the items for an indefinite period through an arrangement that both parties to the agreement understand to be open-ended?

IG7. Yes. The entity has control over these items in its heritage collection. This is because it has the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?

IG8. Yes. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items. This is because it has the ability to use the items or direct other parties about their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Recognition

Treatment of Subsequent Expenditure on Unrecognized Heritage Assets

Should an entity capitalize subsequent expenditure on an unrecognized heritage asset when the expenditure meets IPSAS 45's recognition principle?

IG9. Yes. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset where that expenditure meets IPSAS 45 recognition principle in paragraph 6.

Capitalization Threshold for Costs

What factors should be considered when choosing a capitalization threshold?

IG10. IPSAS 45 paragraph 6 establishes the recognition principle for determining whether costs should be recognized as an asset, i.e., "capitalized" and states that the cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or current value of the item can be measured reliably.

IG11. In practice, entities expense some costs that meet this recognition principle, because they fall below a "capitalization threshold," established by management. Capitalization thresholds assume application of the materiality principle. As such, not all property, plant, and equipment with useful lives extending beyond a single reporting period will be capitalized. Many can be expensed without having a material impact on the information reported in the financial statements. Capitalization thresholds guide entities on whether costs should be capitalized and included in the statement of financial position or expensed and included in the statement of financial performance.

IG12. Factors to consider when setting capitalization thresholds include:

(a) **Meeting the information needs of primary users**: Capitalization thresholds should result in reported information that meets the needs of primary users of the financial statements. Capitalization thresholds should result in reported amounts for recognized assets that achieve the qualitative characteristics, including relevance and representational faithfulness.

(b) **Materiality**: Capitalization thresholds should be such as to ensure that material asset values are captured. Appropriate capitalization thresholds guide entities to capitalize items that would materially impact the information about assets and expenses in the financial statements, and expense those items that would not materially impact that information.

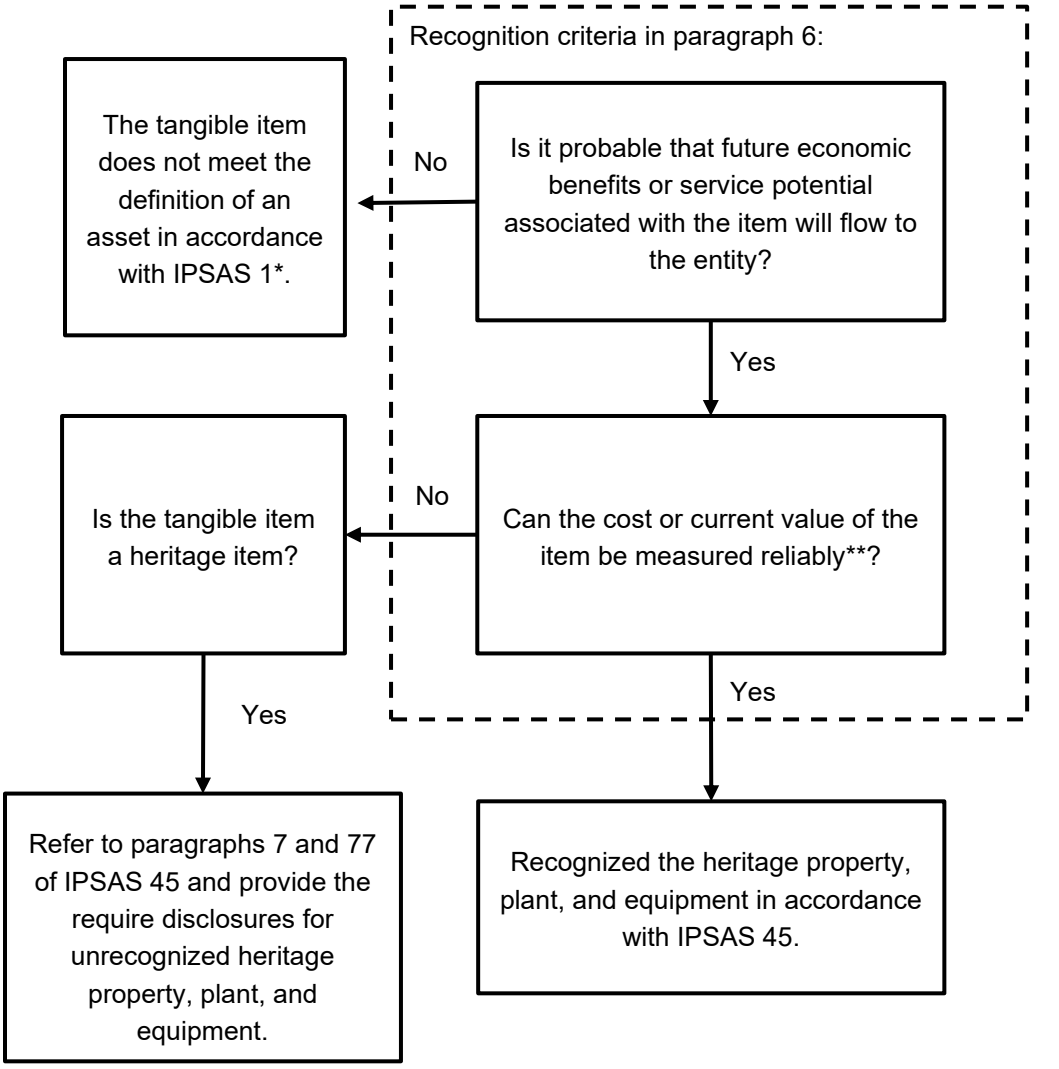
(c) **Cost-benefit**: When capitalization thresholds are set at appropriate levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting primary users' needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff – without any benefit.

IG13. An entity should consider whether different classes of property, plant, and equipment need different capitalization thresholds.

IG14. Capitalization thresholds are often applied to individual items rather than to groups of similar items. However, the cumulative effect on a group of similar assets should be considered when relevant. This may be the case when a group of assets are acquired at the same time as part of a single project, for example assets acquired for an extensive building program.

Decision Tree – Heritage Item

This decision tree accompanies, but is not part of, IPSAS 45.



* **Assets** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

**** Measurement Considerations:**

- Cost as described in paragraphs 14-19.
- Current value:
  - Current operational value: The amount the entity would pay for the remaining service potential of an asset at the measurement date.
  - Fair value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.
- Reliable information: Information that is free from material error and bias and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.

Subsequent Measurement

Current Value Model

Measurement Bases

Can a class of property, plant, and equipment measured using the current value model mix current operational value and fair value measurement bases?

IG15. Yes. The measurement model, i.e., historical cost model or current value model, must be applied consistently to an entire class of property, plant, and equipment. As long as the measurement model is applied to an entire class of property, plant, and equipment, different measurement bases can be applied within the class. This may occur when a class of property, plant, and equipment is measured using the current value model. Individual items within this class of property, plant, and equipment may be measured at current operational value or fair value depending on the primary objective for which an entity holds an item, or part of an item, of property, plant, and equipment. (See paragraph 27).

Is a change in current value measurement basis, from current operational value to fair value, considered a change in accounting policy in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*?

IG16. No. The current value measurement basis may change because of a change in the objective for which an entity holds an item or part of an item of property, plant, and equipment.

IG17. For example, a public hospital has ten wards, nine of which have been used for fee-paying patients on a commercial basis, while the tenth ward was used for non-fee-paying patients, The entity decides to repurpose the tenth ward to fee-paying patients on a commercial basis, changing the objective for which the entity holds the tenth ward from operational capacity to financial capacity. As a result, the entity starts measuring the tenth ward at fair value.

Current Value Measurement of Heritage Assets

Do restrictions on the use of heritage assets affect an entity's ability to derive its current value either on initial recognition (if, for example, the asset is donated), or subsequently (when the entity subsequently revalues its heritage assets)?

IG18. No. Restrictions on the use of heritage assets do not affect an entity's ability to derive current values for them. However, restrictions will need to be taken into account when deriving a current value.

Where a heritage asset is viewed as irreplaceable, does this affect an entity's ability to derive its current value?

IG19. No. A view that a heritage asset is irreplaceable does not affect an entity's ability to derive a current value.

IG20. Many heritage assets are viewed as irreplaceable from a heritage perspective. From a financial reporting perspective, the ability to derive a current value involves the ability to ascertain values for equivalent assets. "Equivalent assets" do not have to be identical assets when deriving a current value. Where an entity needs to estimate a current value for a heritage asset, it will need to consider information available on current values, even when, from the perspective of its heritage nature, the asset is irreplaceable. Obtaining current values for heritage assets may be complex and difficult. It could involve judgment to reach an estimate that is derived from a range of possible values. These measurement challenges are a normal part of financial reporting, and not unique to the valuation of heritage assets. The need for professional judgment, expert valuation advice, and/or the use of estimates to derive a current value is not a sufficient basis for concluding that a current value cannot be derived.

IG21. A consideration of the following factors will support an entity's assessment of whether it can derive a current value for a heritage asset:

(a) Replacement of service potential: A current value is likely to be derivable, if the service potential of the heritage asset could be replaced, if necessary, through either:

(i) Purchasing a similar asset; or,

(ii) Reproducing or reconstructing the asset, with reproduction applying to either the whole asset or parts of the asset on either an "as needed" basis or through application of a replacement cycle for the asset.

(b) By contrast, the heritage asset's current value may not be derivable if its service potential cannot be replaced through purchasing another, similar asset or through reproduction.

IG22. Significance of the heritage asset: A current value is likely to be derivable, if the heritage asset's service potential mainly relates to its ability to represent an era or type, such that another heritage asset of the same era or same type could be similarly representative.

By contrast, a heritage asset's current value may not be derivable if its service potential is independent of the heritage asset's ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.

Valuing Land Under or Over Infrastructure Assets

How should the land under or over infrastructure assets, such as land under roads or railways, be valued because the related infrastructure assets on top of the land are specialized and held for operational capacity?

IG23. IPSAS 45 is clear that:

(a) Land should be separately accounted for. This requirement applies to all land, including land under or over infrastructure assets; and

(b) Land under or over infrastructure assets accounted for under the current value model should be valued at current operational value or fair value. Because the infrastructure asset itself is a specialized asset, it will often be the case that the market approach will be challenging to apply, and that the asset will be more easily valued using the cost approach.

IG24. IPSAS 46, *Measurement* defines the cost approach as a measurement technique that reflects the amount that will be required currently to replace the service capacity of an asset (often referred to as the current replacement cost).

IG25. The replacement cost of the land is based on the current value of the land based on the existing site. For example, if the road runs through agricultural land, then the current value of the land under that section of the road will be agricultural and if the road runs through an industrial area, then the current value placed on the land under that section of the road will be industrial.

Frequency of Revaluation of Property, Plant, and Equipment

How often should property, plant, and equipment be revalued?

IG26. Paragraph 30 of IPSAS 45 specifies that the frequency of revaluations depends upon the changes in current value of the items of property, plant, and equipment being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that choose the current value model to determine whether carrying amounts differ materially from the current value as at reporting date.

IG27. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting

date. If any such indication exists, the entity determines the asset's current value and revalues the asset to that amount.

IG28. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

(a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated;

(b) Where a market exists for the assets of the entity, whether market values are different from their carrying amounts;

(c) During the period, whether a price index relevant to the asset has undergone a material change;

Internal sources of information

(d) Evidence is available of obsolescence or physical damage of an asset;

(e) Significant changes, adverse or favorable, affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favorable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and

(f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

IG29. The list in paragraph IG28 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current value as at the reporting date.

Depreciation

Heritage Assets' Useful Lives

What are the main factors to consider when assessing whether a heritage asset has an indefinite useful life?

IG30. Paragraph 52 states that there is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. For a heritage asset to have an indefinite useful life, an analysis of the relevant factors should show that it is reasonable for the entity to consider that there is no foreseeable limit to the period over which it is expected to provide service potential or be used operationally to generate net cash inflows for the entity. Paragraph 54 states that estimates of useful life, at the time the estimate is made, should reflect projections of the relevant factors that are realistic, rather than optimistic or pessimistic.

IG31. Paragraph AG28 states that a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset is an example of an asset that could have an indefinite useful life.

IG32. The main factors to consider when assessing whether a heritage asset has an indefinite useful life are:

(a) **Period providing service potential**: The entity should expect that, to the best of its knowledge, the period over which the heritage asset will continue to provide service potential and/or future economic

benefits will continue indefinitely. The assets' heritage value for future generations should be demonstrable, such that it is reasonable to expect that its heritage value will continue indefinitely.

(b) **Usage**: The usage of the heritage asset should not result in physical wear and tear to the heritage asset.

(c) **Preservation**: The entity should be able to describe the actions it has taken in the past and plans to continue to take to preserve the heritage asset, including adequate protection of heritage assets from the natural elements, where relevant. Preservation plans should include information on the likely availability of staff and financial resources to carry out the entity's preservation activities.

IG33. Entities apply judgment to estimate the useful life of an asset with reference to experience with similar assets. If circumstances change, the entity will need to consider whether the heritage asset still has an indefinite useful life. If the heritage asset is found to have a finite useful life, the entity will then treat it as a depreciable asset and account for it accordingly.

Identifying Parts of Infrastructure Assets that Should be Separately Depreciated

What should be considered when identifying parts of infrastructure asset networks or systems for financial reporting purposes?

IG34. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part that will have a material impact or effect on determining the annual depreciation expense.

IG35. Property, plant, and equipment including infrastructure assets do not require separate recognition beyond the level required for financial reporting purposes. IPSAS 45 requires:

(a) Items with a cost or value that is significant in relation to the total cost of the item shall be depreciated separately; and

(b) Significant parts of property, plant, and equipment to be grouped with other significant parts that have a similar useful life and / or depreciation method when determining the depreciation charge.

IG36. One of the characteristics of infrastructure assets is that they are networks or systems comprised by a number of assets. Each of those assets or groups of similar assets may be a separate unit of account and may have parts.

IG37. Judgment is required in determining whether those parts of the assets or similar group of assets that make up the infrastructure asset networks or systems are significant in relation to the whole infrastructure asset network or system when determining whether or not to treat them separately. For financial reporting purposes, the following indicators can be helpful in identifying significant parts of an item of property, plant, and equipment:

(a) Parts should be separately identifiable and measurable;

(b) Parts should have significant value in relation to the asset; and

(c) Parts should have different estimated useful lives.

IG38. The entity must consider the facts and circumstances of the transaction as a whole, and materiality to determine the significant parts for the purposes of calculating depreciation.

Use of Information in the Asset Management Plans for Financial Reporting

Can asset management plans provide information useful for accounting for property, plant, and equipment?

IG39. Yes. Information in asset management plans may be used to account for property, plant, and equipment when the items of property, plant, and equipment are maintained in accordance with a sufficiently detailed asset management plan that is subject to effective internal controls and has reliable and up to date information.

IG40. Information from asset management plans can be a useful source of input to:

(a) Calculate depreciation. Paragraphs 47, 57, AG33 and AG35 indicate that depreciation reflects the consumption of the asset's future economic benefits or service potential by allocating the depreciable amount using a systematic basis over its useful life. Asset management plans may contain information on:

(i) The asset's expected useful life - Asset management plans may include information about the expected useful life based on its design/function/expected use; and

(ii) Expected patterns of asset consumption - Asset management plans may include information about the condition and maintenance history;

(b) Determine the significant parts of property, plant, and equipment. Paragraphs 41 and AG24 stipulate that an entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part. Asset management plans may include information useful to determine or identify these significant parts of property, plant, and equipment which could in turn be useful to calculate depreciation, impairment, and/or facilitate derecognition of items of property, plant, and equipment;

(c) Calculate the estimated costs to maintain, restore and refurbish assets; and

(d) Determine whether there is an indication that property, plant, and equipment may be impaired. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*.

Impairment

Under-Maintenance of Assets

What is under-maintenance of assets?

IG41. Under-maintenance of assets occurs when the level of maintenance of an asset is insufficient to maintain the service potential or the useful life of the asset.

Could under-maintenance impact the measurement of items of property, plant, and equipment that require constant maintenance such as infrastructure assets?

IG42. Yes. Under-maintenance may affect the measurement of property, plant, and equipment. It may be an indicator for impairment and may also impact the residual value and useful life of the property, plant, and equipment.

IG43. The relevant guidance for impairment is available in paragraph 59 of this Standard and IPSAS 21 or IPSAS 26. The relevant guidance for assessing the residual value and useful life of property, plant, and equipment is available in paragraphs 48 and 49 of this Standard.

IG44. No liability should be recognized when property, plant, and equipment are not adequately maintained because IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* is clear there is no present obligation to recognize maintenance expenses that will be incurred in the future.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 45, Property, Plant, and Equipment.

Definition of Property, Plant, and Equipment

Assessment of Control

Control of Land under or over Property, Plant, and Equipment

Example 1-Case A (see paragraphs IE1-IE3) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has legal ownership of the land and the right to direct access to the land and to restrict or deny access of others to the land.

IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200-mile road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.

IE2. The Provincial Government concludes that the National Government controls the land because the National Government:

(a) Legally owns the land;

(b) Retains all the rights to the land, as it can cancel the binding arrangement at any point in time; and

(c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.

IE3. While the Province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the National Government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this is insufficient to support its control of the land. Other indicators support control being retained by the National Government.

Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has unlimited and unrestricted use of the land.

IE4. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.

IE5. Even though the Provincial Government does not legally own the land, the Provincial Government concludes it controls the land because it:

(a) Has the right to direct access to the land and to restrict or deny access of others to land because it has unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;

(b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and

(c) Ensures the land is used to achieve the Provincial Government’s service potential objective whereby the land will allow the Provincial Government to build a road that will transport vehicles and goods between the two cities.

Disclosures

Example 2 (see paragraph IE6) illustrates the general disclosure principles in paragraph 69-76.

IE6. The Department of the Interior is a public sector entity that controls a wide range of property, plant, and equipment, and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. **Land**

   (a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.

   (b) Restrictions on Titles:

   Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at 25,000 currency units) of the national interest land and a further two thousand hectares (carried at 250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided; the Department recognizes the jurisdiction of the Court to hear these cases.

2. **Buildings**

   (a) Buildings consist of office buildings and industrial facilities at various locations.

   (b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.

   (c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.

   (d) The Department has entered into five contracts for the construction of new buildings; total contract costs are 250,000 currency units.

3. **Machinery**

   (a) Machinery is measured at cost less depreciation.

   (b) Depreciation is calculated on a straight-line basis over the useful life of the machine.

   (c) The machinery has various useful lives:

   Tractors: 10 years

   Washing Equipment: 4 years

   Cranes: 15 years

   (d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings – the contracted cost is 100,000 currency units.

4. **Furniture and Fixtures**

   (a) Furniture and fixtures are measured at cost less depreciation.

   (b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.

(c) All items within this class have a useful life of five years.

Reconciliations (in '000 of currency units)								
	Land		**Buildings**		**Machinery**		**Furniture and Fixtures**	
Reporting Period	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	–	–	250	100	120	200	20	100
Disposals	–	–	150	40	60	80	20	–
Depreciation (As per Statement of Financial Performance)	–	–	160	180	145	135	50	50
Revaluations (net)	250	225	–30	–50	–	–	–	–
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200
Sum of Revaluation Surpluses (Paragraph (d))	750	500	250	250	–	–	–	–
Sum of Revaluation Deficits (Paragraph (e))	25	25	380	350	–	–	–	–
Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	–	–	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

COMPARISON WITH IAS 16

IPSAS 45, *Property, Plant, and Equipment* is drawn primarily from IAS 16 (issued in December 2003, including amendments up to March 2018), *Property, Plant and Equipment*. The main differences between IPSAS 45 and IAS 16 are as follows:

- IPSAS 45 refers to both “economic benefits” and “service potential”, where appropriate, in the section on recognition of an item of property, plant, and equipment, while IAS 16 refers to “economic benefits”.
- IPSAS 45 at initial measurement requires that an item of property, plant, and equipment acquired through a non-exchange transaction be measured at its deemed cost. IAS 16 does not have such a requirement.
- The subsequent measurement models in IPSAS 45 are historical cost and current value models, while in IAS 16 the models are cost and revaluation.
- IPSAS 45 for subsequent measurement has two measurement bases in the current value model - current operational value and fair value. IAS 16 revaluation model has only one measurement basis - fair value.
- Under IPSAS 45 revaluation increases and decreases are offset within a class of assets basis, while in IAS 16 are offset on an asset basis.
- IPSAS 45 has disclosure requirements for unrecognized heritage assets, while IAS 16 does not have such a requirement.
- IPSAS 45 does not require the disclosure of the equivalent historical cost amounts, where an entity adopts the current value model and carries items of property, plant, and equipment at revalued amounts, while IAS 16 does.
- IPSAS 45 requires the disclosure of the sum of all revaluations, surpluses and deficits for individual items of property, plant, and equipment within that class. IAS 16 does not have such a disclosure requirement.

COMPARISON WITH GFS

In developing IPSAS 45, *Property, Plant, and Equipment*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 45 and GFS will depend on the facts and circumstances of the items of property, plant, and equipment.
- Both IPSAS 45 and GFS require an entity to recognize property, plant, and equipment. However, IPSAS 45 uses accounting terminology whereas GFS uses economic terminology, which may have a similar meaning.
- On initial recognition, IPSAS 45 requires measurement at cost or deemed cost where appropriate. As GFS requires the use of market prices, the same valuation can result.
- On subsequent measurement, IPSAS 45 allows historical cost, current operational value, or fair value measurement bases. In GFS, assets should be measured at market values, so the same valuation can result if the market approach is used as the measurement technique.
- In IPSAS 45 current value model increases or decreases in the carrying amount are recognized in net assets/equity or surplus or deficit, as appropriate. In GFS, changes in market value are recognized as other economic flows.
- Both IPSAS 45 and GFS require capitalization of transaction costs. Transaction costs in IPSAS 45 and GFS are presented together with the items of property, plant, and equipment, though ownership transfer costs of land in GFS are presented in land improvements.
- In IPSAS 45, depreciation can be based on historical cost or on current value, whereas consumption of fixed capital in GFS is always based on current value.
- IPSAS 45 includes disclosure requirements that are not present in GFS.

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IPSAS 46, *MEASUREMENT*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 13 *Measurement*, published by the International Accounting Standards Board (IASB®). Extracts from IFRS 13 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 46, *MEASUREMENT*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 46, *Measurement* was issued in May 2023.

Since then, IPSAS 46 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)

Table of Amended Paragraphs in IPSAS 46

Paragraph Affected	How Affected	Affected By
4	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
7	Amended	IPSAS 33 November 2025
23	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
56A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
56B	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
56C	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
57	Amended	IPSAS 33 November 2025
B4	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
B5	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
B6	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
B9	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
A.2	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
B.4	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025

Paragraph Affected	How Affected	Affected By
B13	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
D.7	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025

IPSAS 46, *MEASUREMENT*

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International Public Sector Accounting Standard 46, *Measurement*, is set out in paragraphs 1–58. All the paragraphs have equal authority. IPSAS 46 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. **The objective of this Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The Standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.**

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply IPSAS 46, *Measurement* in measuring assets and liabilities.

3. Except as specified in paragraph 4, this Standard applies when another IPSAS requires or permits:

   (a) One or more of the measurement bases defined in this Standard; and

   (b) Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal).

4. The measurement requirements of this Standard do not apply to the following:

   (a) Leasing transactions accounted for in accordance with IPSAS 43, *Leases*;[1]

   (b) Transactions accounted for in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*; and

   (c) Measurements that have some similarities to the measurement bases in this Standard but are not those measurement bases, such as net realizable value in IPSAS 12, *Inventories* or value in use in IPSAS 26, *Impairment of Cash-Generating Assets* (but this Standard is applied in measuring fair value as required in IPSAS 26).

5. The measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in the individual IPSAS.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

   Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

   Cost approach is a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

   Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

   Current operational value is the amount the entity would pay for the remaining service potential of an asset at the measurement date.

   Deemed cost is an amount used as a surrogate for transaction price at the measurement date.

   Entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

   Exit price is the price received to sell an asset or paid to transfer a liability.

[1] If this Standard is applied prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

Expected cash flow is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Highest and best use is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.

Historical cost is the consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.

Income approach is a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.

Inputs are the assumptions used when pricing the asset or liability, including assumptions about risk, such as the following:

(a) **The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and**

(b) **The risk inherent in the inputs to the measurement technique.**

Inputs may be observable or unobservable.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Market approach is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

(a) **They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Party Disclosures*, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.**

(b) **They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.**

(c) **They are able to enter into a transaction for the asset or liability.**

(d) **They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.**

Market-corroborated inputs are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Non-performance risk is the risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).

Principal market is the market with the greatest volume and level of activity for the asset or liability.

Risk premium is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.

Transaction costs are incremental costs that are directly attributable to the acquisition, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.

Transaction price is the consideration given to acquire, construct or develop an asset or received to assume a liability.

Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of account is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.

Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Measurement

Initial Measurement

7. **On the date an item qualifies for recognition, it shall be initially measured at its transaction price, plus transaction costs for assets or minus transaction costs for liabilities, unless:**

   (a) That transaction price, plus or minus transaction costs, does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes (see paragraphs 10–13); or

   (b) Otherwise required or permitted by another IPSAS.

   When applying accrual basis IPSAS Standards for the first time, initial measurement in an opening statement of financial position at the date of adoption of IPSAS Standards should be carried out in accordance with IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*.

Transactions in an Orderly Market

8. When an asset is acquired, constructed, or developed, or a liability is assumed in an orderly market, the transaction price, plus or minus transaction costs, reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.

9. Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider factors specific to the transaction and to the asset or liability.

Transactions not Undertaken in an Orderly Market

10. When an asset is acquired, constructed, or developed, or a liability is assumed, as a result of an event that is not a transaction in an orderly market:

    (a) It may not be possible to observe a transaction price;

    (b) The transaction price may not faithfully present relevant information about the asset or liability; or

    (c) The transaction price may be zero.

    In such cases, deemed cost is used to measure the initial value of the asset or liability. A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement. Current value measurement bases are described in paragraphs 23–31.

11. Any difference between deemed cost and any consideration given or received would be recognized as revenue or expenses, unless it is a contribution from owners or a relevant IPSAS requires otherwise.

12. Circumstances where a transaction price may not be observable or may not faithfully present relevant information include:

    (a) Transaction prices that have a concessionary element;

    (b) Assets transferred to the entity free of charge by a government or donated to the entity by another party;

    (c) Liabilities imposed by legislation or regulation;

    (d) Liabilities to pay compensation or a penalty arising from an act of wrongdoing or breach of contract;

    (e) Transaction prices that are affected by relationships between the parties, or by financial distress or other duress of one of the parties; and

    (f) Transaction prices that are not available on the date of adoption of IPSAS as defined in IPSAS 33.

13. When assets are acquired, constructed, or developed, or liabilities assumed, as a result of an event that is not a transaction in an orderly market, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognize other assets, other liabilities, contributions from owners or distributions to owners to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.

Transaction Costs at Initial Measurement

14. Transaction costs related to acquiring, constructing, or developing, an asset or incurring a liability are a feature of the transaction in which the asset was acquired, constructed, or developed, or the liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the entity could not have acquired, constructed, or developed the asset or assumed the liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or in settling or transferring a

liability are a feature of a possible future transaction. Unless explicitly required, possible transaction costs are not included because initial measurement reflects the costs of acquiring the asset or incurring the liability.

Transaction Occurring in Stages

15. The acquisition of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the entity's own use. Any expenditures incurred in bringing the asset to the state where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.

Deferred Payments

16. Where the time value of money is material—for example, where the length of time before settlement falls due is significant— the amount of the future cash flows is discounted so that, at the time an asset or liability is first recognized, it represents the value of the amount received or paid. For example, the difference between the amount of the future cash flows and the present value of the asset or liability is amortized over the life of the asset or liability, so that the asset or liability is stated at the amount due to be received, or the required payment when it falls due.

Subsequent Measurement

17. After initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure an asset or liability on an historical cost basis or a current value basis. This accounting policy choice is reflected through the selection of the measurement model.

Measurement Models

18. Assets and liabilities recognized in financial statements are quantified in historical terms or current terms. This requires the selection of an historical cost or current value measurement model. In selecting a measurement model, an entity shall consider the characteristics of the item, the measurement objective and the monetary information being presented.

Measurement Bases

19. A measurement basis provides information that achieves the qualitative characteristics, as described in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) and ensures the constraints on information in GPFRs are considered under the measurement model selected. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related revenue and expenses. The selection of a measurement basis depends on the measurement model applied (see diagram after paragraph 36).

20. **When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below, an entity shall apply the measurement basis in accordance with the requirements and related appendices in this Standard:**

    (a) **Historical cost basis (Appendix A: Historical cost);**

    (b) **Current operational value basis (Appendix B: Current operational value);**

    (c) **Cost of fulfillment basis (Appendix C: Cost of fulfillment); and**

    (d) **Fair value basis (Appendix D: Fair value).**

Historical Cost Basis

21. The historical cost basis is an entry, entity-specific value. The historical cost basis provides monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.

22. Following initial measurement, the value of an asset or liability is not remeasured to reflect current conditions or increases in the value of the asset or decreases in the value of the liability.

Current Operational Value Basis

23. Current operational value is an entry, entity-specific amount that the entity would pay for the remaining service potential of an asset in the least costly manner at the measurement date. Current operational value provides monetary information about assets, and related amortization, depreciation, etc., using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.

24. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the entity's asset in its existing use and condition.

25. Current operational value differs from fair value because it:

    (a) Is explicitly an entry price and includes all the costs that would necessarily be paid for the remaining service potential of an asset;

    (b) Reflects the value of an asset in its existing use, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and

    (c) Is entity-specific and therefore reflects the economic position of the entity.

Cost of Fulfillment Basis

26. Cost of fulfillment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfillment is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfills a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfill the liability.

27. Cost of fulfillment cannot be observed directly and is determined using cash-flow-based measurement techniques. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would use and those an entity itself uses.

28. The cost of fulfillment reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.

Fair Value Basis

29. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The fair value of an asset or liability is not dependent, even in part, on the transaction or event that gave rise to the asset or liability.

30. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.

31. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly.

Characteristics of the Asset or Liability

32. A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis, an entity shall take into account the characteristics of the asset or liability at the measurement date (for example, for fair value measurement the characteristics are considered if market participants would take those characteristics into account when pricing the asset or liability). Such characteristics include, for example, the following:

    (a) The condition, use and location of the asset; and

    (b) Restrictions, if any, on the sale or use of the asset.

33. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity, for entity-specific measurements, and by market participants, for market-based measurements.

34. The asset or liability measured might be either of the following:

    (a) A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or

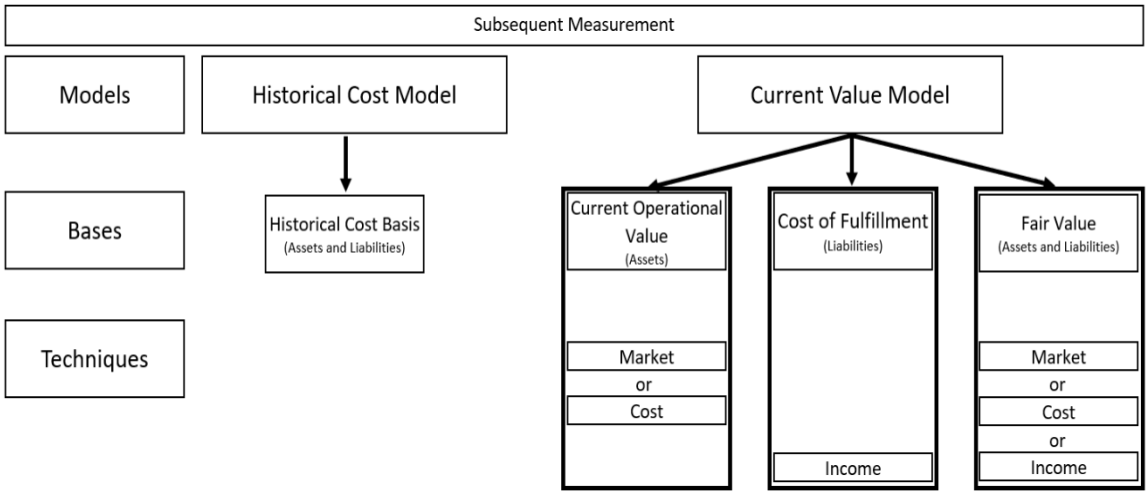
    (b) A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).

35. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes, depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this Standard, except where specified differently in this Standard.

Measurement Techniques

36. **An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to estimate the measurement basis or determine deemed cost.**

    The following diagram sets out the subsequent measurement framework based on the *Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*. This diagram illustrates the three levels of measurement and the relationships between them.



37. A measurement technique is applied to estimate the amount at which an asset or liability is recognized under the selected measurement basis or in determining deemed cost (see paragraph 10). Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 29–31.

38. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 42–45. An entity shall use measurement techniques consistent with one or more of those approaches to measure the asset or liability under the selected measurement basis.

39. In some cases, a single measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement techniques are used to measure the asset or liability under the selected measurement basis, the results shall be evaluated considering the reasonableness of the range of values indicated by those results.

40. Measurement techniques shall be applied consistently. However, a change in a measurement technique or its application (e.g., a change in its weighting when multiple measurement techniques are used or a change in an adjustment applied to a measurement technique) is appropriate if the change results in a measurement that is equally or more representative of the measurement basis in the circumstances. That might be the case if, for example, any of the following events take place:

    (a) New markets develop;

    (b) New information becomes available;

    (c) Information previously used is no longer available;

    (d) Measurement techniques improve; or

    (e) Market conditions change.

41. Revisions resulting from a change in the measurement technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurement technique or its application.

Market Approach

42. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Cost Approach

43. The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.

44. The cost of a substitute asset of comparable utility is calculated as the cost of a modern equivalent asset—that is, an asset providing an equivalent service as the existing asset.

Income Approach

45. The income approach converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis reflects current expectations about those future amounts.

Depreciation, Impairment and Other Adjustments

46. Depreciation and impairment are applicable to measurement bases in the historical cost model and the current value model. Neither depreciation nor impairment are measurement bases or measurement techniques in their own right. They are methods to reflect the consumption of the asset or loss of the future economic benefits or service potential of the asset.

47. Under both the historical cost model and the current value model, an asset is updated over time to depict:

    (a) The consumption of part or all of the resource that constitutes the asset (depreciation or amortization);

    (b) Payments received that extinguish part or all of the asset;

    (c) The effect of events that cause part or all of the asset to no longer be recoverable (impairment); and

    (d) Accrual of interest to reflect any financing component of the asset.

48. Under both the historical cost model and the current value model, a liability is updated over time to depict:

    (a) Fulfillment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods or services;

    (b) The effect of events that increase the value of the obligation to transfer the resources needed to fulfill the liability to such an extent that the liability becomes onerous. A liability is onerous if the carrying amount is no longer sufficient to depict the obligation to fulfill the liability; and

    (c) Accrual of interest to reflect any financing component of the liability.

Transaction Costs in Subsequent Measurement

49. **Transaction costs are incremental costs that would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset or incurred, transferred, or settled the liability.**

50. Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.

51. Costs attributable to the acquisition, construction, or development, of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer (e.g., borrowing costs), are excluded from the definition of transaction costs.

52. Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether an entity is recognizing an asset or liability using an entry-based measurement basis or an exit-based measurement basis impacts whether those transaction costs are included in, or excluded from, the item’s measurement.

53. Transaction costs can arise when an asset is acquired, constructed, or developed or a liability is assumed, when an asset is disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring, constructing, or developing an asset or assuming a liability are a feature of the transaction in which the asset

was acquired, constructed or developed, or the lability was assumed, such transaction costs incurred in entering into a transaction are included in entry-based measurement bases. Transaction costs that would be incurred in disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction costs that would be incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is entity-specific.

Disclosure

54. An entity shall disclose information that helps users of its financial statements assess the measurement basis, the measurement techniques and inputs used to develop those measurements.

55. To meet the objectives in paragraph 54, an entity shall apply the measurement disclosure requirements in the relevant IPSAS to which the measurement of the asset or liability applies.

Effective Date and Transition

Effective Date

56. **An entity shall apply this Standard for annual periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies this Standard earlier, it must disclose that fact.**

56A. **Paragraphs 23, B4–B6, and B9 are amended by Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

56B. **Paragraph 4(c) is amended by Part 2 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

56C. **Paragraph B13 is amended by Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted.**

57. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33 for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of accrual basis IPSAS Standards.

Transition

58. This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Appendix A

Historical Cost

This Appendix is an integral part of IPSAS 46.

Measurement

A1. The objective of the historical cost measurement basis is to provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction (or deemed cost, where applicable) or other event that gave rise to them.

A2. The historical cost basis is:

(a) The consideration given to acquire, construct and/or develop an asset plus transaction costs;

(b) The consideration received to assume a liability minus transaction costs; or

(c) The deemed cost of the asset or liability or other event that gave rise to it.

The consideration is the cash or cash equivalents or the value of the other consideration given or received at the time, or period over which, the asset is acquired, constructed, or developed or the liability is assumed.

Initial Measurement

A3. Initial measurement is determined in accordance with paragraphs 7–16 of this Standard.

Subsequent Measurement

A4. After initial measurement, the gross carrying amount of an asset or liability measured using the historical cost basis remains unaffected by changes in the underlying current market conditions, unless those changes trigger an impairment. For example, the amount at which an item of property, plant, and equipment is recorded is not updated to reflect an increase in the current market price of the item after it has been acquired, constructed, or developed.

A5. However, as with current value measurements, the carrying amount of an asset or liability measured using the historical cost basis is updated to reflect changes to the item as noted in paragraphs 47 and 48.

Amortized Cost

A6. The historical cost basis is applied to financial instruments by measuring the instruments at amortized cost. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial measurement. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.

Appendix B

Current Operational Value

This Appendix is an integral part of IPSAS 46.

Measurement

B1. The objective of a current operational value measurement is to estimate the amount an entity would pay for a non-financial asset at the measurement date. A current operational value measurement requires an entity to determine all of the following:

(a) The amount the entity would pay. This includes assessing the price that would be paid in an active market, or the cost the entity would incur, for the asset in the least costly manner.

(b) The remaining service potential of the asset. This considers the current condition of the asset.

(c) The asset (consistent with its unit of account). This includes assessing the asset's existing use and location.

(d) The measurement technique(s) appropriate for estimating (a) to (c) considering the availability of data that faithfully represents the assumptions that are specific to the entity.

B2. Current operational value provides an entity specific measurement of an asset held for its operational capacity in its existing use, location, and current condition.

(a) In the statement of financial position, current operational value reflects the amount an entity would pay at the measurement date for the remaining service potential of its existing asset.

(b) In the statement of financial performance, current operational value reflects the consumption of the asset in providing the service based on conditions at the measurement date. This differs from the historical cost basis which reflects consumption of the asset based on the prices when the asset was acquired, constructed, or developed, and initially recognized.

The Amount an Entity would Pay

B3. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date regardless of whether that price is directly observable or not.

B4. The amount an entity would pay is:

(a) The price to acquire the identical, or a similar, asset; or

(b) The costs that would be incurred to develop or produce the identical, or a similar, asset.

B5. The price to acquire the identical asset is the amount an entity would pay for the asset in an active market. If an active market for the identical asset does not exist an entity will need to estimate current operational value using appropriate measurement techniques.

B6. The costs that would be incurred to develop, or produce the identical, or a similar, asset is estimated using available price information. For example, many military assets, such as an aircraft, generally do not have active markets. Such assets often cannot be acquired as a finished product that is identical, or similar, to the aircraft under valuation. Measuring the cost of each part of the asset, such as the fuselage, engine, electronics etc., and the cost to assemble them into the same, or similar, aircraft, adjusted for the age, functionality, and condition, will generally be necessary to estimate the aircraft's current operational value.

Entry Price

B7. The current operational value of an asset represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.

Entity-Specific Value

B8. An entity shall measure the current operational value of an asset using assumptions from the entity's perspective, based on the way the existing asset is used. Those assumptions shall reflect the economic, legal and other constraints that affect the possible uses of the asset. For example, where an entity is using an asset for a particular purpose, the entity will consider the amount it would pay for that type of asset based on its existing use and not consider the value for alternative uses for that asset.

The Least Costly Manner

B9. A current operational value measure assumes the amount an entity would pay for the remaining service potential of an asset at the measurement date is the least costly amount for the asset in an orderly transaction.

B10. An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly amount, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.

B11. Current operational value does not reflect the costs that might be incurred if an urgent necessity to replace the remaining service potential of an asset arose as a result of some unforeseeable event.

Observable Inputs

B12. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a current operational value in both cases is the same—to estimate the amount the entity would pay for the remaining service potential of the asset based on conditions at the measurement date (i.e., an *entry price* at the measurement date from the perspective of the entity that holds the asset).

B13. When a price for an identical, or similar, asset is not observable, an entity measures current operational value using another measurement technique that uses observable inputs, where feasible, such as when external resources are available and can be used.

B14. Because current operational value is an entity-specific value, it is measured using the assumptions from the entity's perspective. These entity-specific assumptions may result from information that is not available publicly. For example, the cost to construct an asset may include labor costs of employees of the entity, as opposed to contract workers. As a result, an entity's intention in how costs are incurred to construct an asset is relevant when measuring current operational value.

B15. In practice, there may be little difference between the assumptions that market participants would use and those that an entity itself uses. For example, where the amount that would be paid for a non-specialized asset is generally the same regardless of its existing use, the assumptions a market participant would use would be consistent with those in an entity-specific valuation.

Remaining Service Potential

B16. Current operational value is the amount the entity would pay for the remaining service potential of an asset. The remaining service potential of the asset takes into account the current age, functionality, and condition of the asset held by the entity.

B17. In order to reflect the current age, functionality, and condition, the following factors are considered:

(a) Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use.

(b) Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent.

(c) Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity.

The Asset

B18. Current operational value is the amount the entity would pay for the remaining service potential of a specific asset. The following key aspects affect the measurement of an asset's current operational value:

(a) The existing asset;

(b) The existing use of the asset; and

(c) The existing location of the asset.

Existing Asset

B19. Current operational value assumes the entity will continue to deliver goods and/or services by using the identical, or a similar, asset.

B20. The identical, or a similar, asset delivers goods and/or services in the same manner as the asset being measured. For example, a power authority that delivers electricity measures the amount it would pay for the remaining service potential of its generation facilities based on the nature of its existing facilities. If the generation facilities are solar farms, the amount an entity would pay for the remaining service potential of the asset is based on a solar farm as opposed to an alternative asset, such as a wind farm, that could also deliver the service.

Existing Use of the Asset

B21. Current operational value is the amount the entity would pay for the remaining service potential of an asset based on its existing use. 'Existing use' is the way an asset, or group of assets, is used and generally reflects the policy objectives of the entity operating the asset. For example, a ministry of health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to deliver health care services rather than for commercial purposes.

B22. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, the existing use of a building operated as a school, is for the delivery of educational services. Alternative uses, such as the operation of the building as an office block held for rental at market rates are not considered. The existing use may be, but is not necessarily, the highest and best use.

B23. Any unused portion of the asset in its existing use is evaluated to determine whether the unused portion is held for a specific operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, and/or functional limitations. Unused portions based on the existing use of the asset, which are held for a specific operational purpose associated with the asset and would be replaced, are included in measuring the asset's current operational value.

B24. Where an unused portion of an asset has no specific operational purpose associated with the asset, an entity determines whether it has an alternative use. Where an alternative use is currently available, the portion of the asset is valued as a separate asset using an appropriate measurement basis. Where the unused portion of an asset has no alternative use, it is included in the current operational value, but has no value.

Existing Location of the Asset

B25. The asset's current operational value assumes that the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated or used.

B26. The current operational value of an asset that cannot be physically moved reflects the value of the physically immovable asset in its existing location. For example, a hospital operating in a city center that could be situated in the suburbs, due to the migration of the population, is measured based on the amount an entity would pay for the hospital at its existing location (e.g., the amount required for a building includes construction costs, permits, regulations, etc. based on costs that would be paid at the existing location).

B27. The current operational value of a physically movable asset reflects the location from which the entity uses the asset and/or the market the entity has access to. For example, the furniture and equipment in a hospital operating in a city center is measured based on the amount an entity would pay for furniture and equipment for the hospital at its current city center location.

Measurement Techniques

B28. The objective of using a measurement technique is to estimate the amount an entity would pay for the remaining service potential of an asset based on conditions at the measurement date. The widely used measurement techniques are the market approach and the cost approach. The main aspects of those approaches are summarized in paragraphs B32–B36. An entity shall use measurement techniques consistent with one or other of those approaches to measure the current operational value.

B29. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, using observable inputs, where feasible.

B30. In some cases, current operational value cannot be determined directly by observing prices in an active market and must be determined by other means. For example, if prices are available only for new assets, the current operational value of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age, functionality, and condition of the asset held by the entity.

B31. If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current operational value measurement is the point within that range that is the most representative value of the remaining service potential of the asset in the circumstances.

Market Approach

B32. Applying the market approach to measure the current operational value of an asset requires the existence of an active market with transactions involving identical or similar assets.

B33. The market approach uses an asset price from an orderly transaction in the principal market (or the market that minimizes the amount that would be paid to acquire the asset) for the entity at the measurement date.

B34. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach an asset with an identical or similar remaining useful life, service potential, etc. must be identified.

Cost Approach

B35. The current operational value of an asset should be established using the cost approach when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will need to be applied.

B36. When the existence of market transactions involving identical or similar assets does not exist, current operational value is the cost to develop or produce the identical, or a similar, asset.

Modern Equivalent Asset

B37. When no cost information is available for a similar or identical asset, or when the existing asset would not be replaced with an identical asset, an entity may estimate current operational value by calculating the cost of a modern equivalent asset and then making deductions for obsolescence and optimization. It may be necessary, therefore, to estimate the current operational value of an asset by drawing on the current price of a modern equivalent asset that provides an equivalent service as the existing asset in its existing use, adjusted to reflect the current age, condition and functionality of the asset held by the entity.

B38. Applying the cost approach means current operational value cannot be determined by observing prices in an active market. However, measuring the current operational value using the cost approach continues to require the use of relevant observable inputs for parts of the asset, where the entity would acquire those parts from the market.

Appendix C

Cost of Fulfillment

This Appendix is an integral part of IPSAS 46.

Measurement

C1. The objective of the cost of fulfillment measurement is to estimate the value of a liability assuming the entity will fulfill the liability in the least costly manner. A cost of fulfillment measurement requires an entity to determine all the following:

(a) The particular liability that is the subject of the measurement (consistently with its unit of account).

(b) The manner in which the liability will be settled.

The Least Costly Manner

C2. The cost of fulfillment assumes that the liability is settled by the entity in the least costly manner.

C3. The cost of fulfillment represents the amount the entity is obligated to incur to settle the liability. This liability represents the minimum amount an entity will incur assuming the entity completely satisfies the liability. For example, an entity may have a liability to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfill the minimum liability of restoring the land to its original condition and therefore are not representative of the cost to fulfill the liability. In cases where an entity intends to fulfill the liability beyond its commitment, guidance in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, should be applied when accounting for an amount in excess of the cost to fulfill.

C4. The entity must have the ability to access the fulfillment method that results in the liability being settled in the least costly manner at the expected fulfillment date. Because different entities (and operations within those entities) with different activities may have access to a variety of fulfillment methods, the least costly manner for the same liability might be different for different entities (and operations within those entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities and circumstances.

C5. An entity need not undertake an exhaustive search of all fulfillment methods to identify the least costly manner of fulfillment, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of fulfillment is presumed to be the manner in which the entity has currently selected to release itself from the liability. For example, if an entity elects to fulfill its decommissioning liability using its own employees, it is presumed this is the least costly manner of fulfillment, regardless of the entity's ability to contract the decommissioning to third parties.

C6. Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the liability and the entity has the ability to access the fulfillment method (see paragraph C4).

C7. Where fulfillment will be made by the entity itself, the cost of fulfillment does not include any margin above costs, because any such margin above costs does not represent a use of the entity's resources. Where the cost of fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.

Entity-Specific Value

C8. The cost of fulfillment is an entity-specific value. An entity shall measure the cost of fulfillment of a liability using the assumptions from the entity's perspective, assuming the entity acts in accordance with its objectives.

C9. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following:

(a) The liability;

(b) The entity's expectations about the amount and timing of future outflows of resources; and

(c) The time value of money.

Whether a risk premium is included in the calculation will depend on guidance in the relevant IPSAS.[2]

C10. When estimating assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.

The Cost that the Entity Will Incur

C11. The cost of fulfillment estimates the cost assuming the entity settles the liability.

C12. A cost of fulfillment measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the entity expects to incur to satisfy the liability. Those future outflows of resources include the amounts:

(a) To be transferred to the liability counterparty; and

(b) The entity expects to be obliged to transfer to other parties to settle the liability.

C13. The price used to measure the cost of fulfilling the liability shall not be adjusted for transaction costs incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the entity expects to incur. In contrast, transaction costs that are expected to be incurred in settling the liability, i.e., exit-based, are a future outflow of resources that is relevant in measuring the cost to fulfill the liability and are included in measuring the cost of fulfillment.

C14. Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.

C15. Where fulfillment of the liability will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date using the income approach. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the liability to be settled within one year.

Settling the Liability

C16. The cost of fulfillment is the cost that the entity expects to incur to settle its liability in the normal course of operations.

C17. In estimating the cost to settle its liability in the normal course of operations, the entity assumes the liability will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.

[2] When including a risk premium in measuring cost of fulfillment, an entity should perform the measurement from the perspective of the entity holding the liability rather than from the perspective of the market participant as noted in paragraph D8.

C18. In estimating the cost of fulfillment the entity takes into account all readily available information at the measurement date under current market conditions in estimating the obligation to settle the liability at the expected fulfillment date.

C19. The cost of fulfillment shall not include the non-performance risk of the entity to settle its liability. A cost of fulfillment measurement is a measure of the value of a liability assuming the entity will fulfill its obligations. As non-performance risk takes into account the effect on the value of a liability of the entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of fulfillment measurement assumes the liability will be fulfilled in the normal course of operations.

Measurement Technique

C20. The cost of fulfilment, cannot be observed directly in an active market. It is determined using the income approach measurement technique.

C21. An entity shall use the income approach. The cost of fulfillment reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.

C22. The objective of using the income approach is to estimate the cost that the entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions. The main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs C23–C48.

Income Approach

C23. Applying the income approach to estimate the cost of fulfillment shall take into account the attributes of the cost of fulfillment measurement basis. This includes:

(a) Estimates of future cash flows.

(b) Possible variations in the estimated amount or timing of future cash flows for liability being measured, caused by the uncertainty inherent in the cash flows.

(c) The time value of money.

(d) Other factors that impact the value of the liability.

C24. Paragraphs C25–C48 describe the use of present value techniques to measure the cost of fulfillment. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the cost of fulfillment to the techniques discussed. The present value technique used to measure the cost of fulfillment will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.

Future Outflows of Resources

C25. The estimates of outflows of resources used to measure the cost of fulfillment shall include all inflows of resources and outflows of resources that relate directly to the fulfillment of the liability. Those estimates shall:

(a) Be explicit (i.e., the entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources);

(b) Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs C30–C34);

(c) Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the entity fulfills the liability (see paragraph C35); and

(d) Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs C36–C40).

Uncertainty and the Expected Value Approach

C26. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources are not conditional upon the occurrence of any specified event (unlike the outflows of resources used in the discount rate adjustment technique).

C27. In determining the expected outflows of resources an entity must:

(a) Identify each possible outcome;

(b) Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome; and

(c) Make an unbiased estimate of the probability of each outcome.

C28. Paragraph C27 requires the estimate of expected values to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.

C29. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph C2 assumes that the liability is settled by the entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.

Market Variables and Non-Market Variables (Paragraph C25(b))

C30. This Appendix identifies two types of variables:

(a) Market variables—variables that can be observed in, or derived directly from, markets (e.g., interest rates); and

(b) Non-market variables—all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).

Market Variables

C31. Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall not substitute its own estimates for observed market prices except as described in paragraph D59. In accordance with Appendix D, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.

Non-Market Variables

C32. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.

C33. Non-market external data (e.g., national statistics for decommissioning of a nuclear power facility) may have more or less relevance than internal data (e.g., internally developed statistics for decommissioning of a nuclear power facility), depending on the circumstances.

C34. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

Estimating Probabilities of Future Payments (Paragraph C25(c))

C35. An entity estimates the probabilities associated with future payments on the basis of:

(a) Information about the known or estimated characteristics of the liability; and

(b) Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted if, for example:

(i) The characteristics of the liability differ (or will differ, for example because of adverse selection) from those of the population that has been used as a basis for the historical data;

(ii) There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or

(iii) There have been changes in the entity's practices or procedures that may affect the relevance of historical data to the liability.

Under Current Estimates (Paragraph C25(d))

C36. In estimating the probability of each outflow of resources scenario, an entity shall use all of the available current information at the measurement date. An entity shall review the estimates of the probabilities that it made at the end of the previous measurement date and update them for any changes. In doing so, an entity shall consider whether:

(a) The updated estimates faithfully represent the conditions at the end of the measurement date; and

(b) The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.

C37. The probability assigned to each scenario shall reflect the conditions at the measurement date. Consequently, in accordance with IPSAS 14, Events After the Reporting Date, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommission. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of

resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with IPSAS 14, that a non-adjusting event occurred after the end of the reporting period).

Future Events (Paragraph C25(d))

C38. Estimates of non-market variables shall consider not just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods thereby decreasing decommissioning costs. The determination of the outflow of resources reflects the probabilities that would be assigned to each possible trend scenario in the light of all the available evidence.

C39. Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.

C40. When estimating the outflow of resources associated with fulfilling the liability, an entity shall take into account future events that might affect the outflow of resources. The entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, an entity shall not take into account future events, such as a change in legislation, that would change or discharge the present obligation or create new obligations under the existing liability.

Time Value of Money

C41. Entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.

C42. An entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall:

(a) Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity.

(b) Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.

C43. When using a risk-free rate, the logical sources of reference rates are high quality bonds, for example, bonds issued by a financially sound government. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.

C44. Although rates on high quality government bonds will not need to be adjusted for default risk in determining the risk-free discount rate, they may need to be adjusted for liquidity risk. Some government bonds are traded in deep and liquid markets enabling bond holders to readily sell them at minimal cost. The rate payable on such bonds is lower than the rate payable on an equivalent illiquid bond. Accordingly, it might be necessary to include a 'premium for illiquidity' in the observed rate for government bonds that are not traded in deep and liquid markets.

Inputs to the Income Approach

General Principles

C45. The income approach used in a cost of fulfillment measurement reflects entity-specific assumptions rather than assumptions used by market participants.

C46. The cost of fulfillment measurement is an entity-specific valuation. When an income approach is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph C10). The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the entity, from the entity's perspective. For example, when measuring the cost to fulfill a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the entity.

C47. In some cases, the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However, a cost of fulfillment measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the IPSAS that requires or permits the cost of fulfillment measurement.

C48. When a liability will be settled at a future date, the assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on fulfillment and the associated discount rate are both based on information available at the measurement date.

Appendix D

Fair Value

This Appendix is an integral part of IPSAS 46.

Measurement

D1. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:

(a) The particular asset or liability that is the subject of the measurement (consistently with its unit of account);

(b) For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);

(c) The principal (or most advantageous) market for the asset or liability; and

(d) The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

The Transaction

D2. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

D3. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability; or

(b) In the absence of a principal market, in the most advantageous market for the asset or liability.

D4. An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

D5. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement technique), even if the price in a different market is potentially more advantageous at the measurement date.

D6. The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.

D7. Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.

D8. Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

Market Participants

D9. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

D10. In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:

(a) The asset or liability;

(b) The principal (or most advantageous) market for the asset or liability; and

(c) Market participants with whom the entity would enter into a transaction in that market.

The Price

D11. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurement technique.

D12. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other IPSAS. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.

D13. Transaction costs do not include transport costs. If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

Application to non-financial assets

Highest and Best Use for Non-Financial Assets

D14. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

D15. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate revenue or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

D16. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.

D17. To protect the public interest, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset, such as a drug patent, that the entity plans to use to manufacture vaccines for its citizens. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

Valuation Premise for Non-Financial Assets

D18. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:

(a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation).

(i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants.

(ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.

(iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.

(b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

D19. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IPSAS (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.

D20. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For example:

(a) The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).

(b) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).

(c) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods.

(d) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the measurement technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurement technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.

(e) In more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).

Fair Value at Initial Recognition

D21. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

D22. In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).

D23. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph D25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.

D24. If another IPSAS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.

D25. When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

(a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

(b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.

(c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IPSAS, or the transaction price includes transaction costs.

(d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.

(e) The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).

Measurement Techniques

D26. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.

D27. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

D28. The objective of using a measurement technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs D31–D36. An entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.

D29. If multiple measurement techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

D30. If the transaction price is fair value at initial recognition and a measurement technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the measurement technique shall be calibrated so that at initial recognition the result of the measurement technique equals the transaction price. Calibration ensures that the measurement technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the measurement technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurement technique). After initial recognition, when measuring fair value using a measurement technique or techniques that use unobservable

inputs, an entity shall ensure that those measurement techniques reflect observable market data (e.g., the price for a similar asset or liability) at the measurement date.

Market Approach

D31. Measurement techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgment, considering qualitative and quantitative factors specific to the measurement.

D32. Measurement techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

Cost Approach

D33. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Market Participant

D34. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

Income Approach

D35. When estimating fair value, the income approach can be applied using several methods. Those methods include, for example, the following:

(a) Present value techniques (see paragraph D36);

(b) Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and

(c) The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Present Value Techniques

D36. Paragraphs D37–D54 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The Components of a Present Value Measurement

D37. Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:

(a) An estimate of future cash flows for the asset or liability being measured.

(b) Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.

(c) The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).

(d) The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium).

(e) Other factors that market participants would take into account in the circumstances.

(f) For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.

General Principles

D38. Present value techniques differ in how they capture the elements in paragraph D37. However, all the following general principles govern the application of any present value technique used to measure fair value:

(a) Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.

(b) Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.

(c) To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.

(d) Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.

(e) Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and Uncertainty

D39. A measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash

flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.

D40. Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.

D41. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

(a) The discount rate adjustment technique (see paragraphs D42–D46) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.

(b) Method 1 of the expected present value technique (see paragraph D49) uses risk-adjusted expected cash flows and a risk-free rate.

(c) Method 2 of the expected present value technique (see paragraph D50) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

Discount Rate Adjustment Technique

D42. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).

D43. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a ‘build-up’ approach).

D44. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

(a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent [(CU1,200/CU1,083) – 1].

(b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent [(CU700/CU566)^0.5 – 1].

(c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).

D45. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the value of Asset A is CU722 (CU800/1.108). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.

D46. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

Expected Present Value Technique

D47. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).

D48. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:

(a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.

(b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

D49. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.

D50. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment

technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

D51. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

Possible cash flows	**Probability**	**Probability-weighted cash flows**
CU500	15%	CU75
CU800	60%	CU480
CU900	25%	CU225
Expected cash flows		CU780

D52. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.

D53. In theory, the present value of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:

(a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent (CU780 – [CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of CU758 (CU780 – CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is CU722 (CU758/1.05).

(b) Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value of the asset is CU722 (CU780/1.08).

D54. When using an expected present value technique, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgments applied.

Inputs to Measurement Techniques

General Principles

D55. Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

D56. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following:

(a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange.

(b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment).

(c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.

(d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.

D57. An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 32 and 33). In some cases, those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IPSAS that requires or permits the fair value measurement (see paragraphs 34 and 35). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph D66) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph D65.

Fair Value Hierarchy

D58. To increase consistency and comparability in fair value measurements and related disclosures, this Appendix establishes a fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value (see paragraphs D62–D89). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

D59. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on

fair value, such as costs to sell when measuring fair value less costs of disposal, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.

D60. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurement techniques (see paragraph D27). However, the fair value hierarchy prioritizes the inputs to measurement techniques, not the measurement techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.

D61. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.

Level 1 Inputs

D62. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

D63. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph D65.

D64. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

(a) The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.

D65. An entity shall not make an adjustment to a Level 1 input except in the following circumstances:

(a) When an entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.

(b) When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for

new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.

(c) When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph AG143F of IPSAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.

D66. If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 Inputs

D67. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

D68. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) Quoted prices for similar assets or liabilities in active markets.

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) Inputs other than quoted prices that are observable for the asset or liability, for example:

(i) Interest rates and yield curves observable at commonly quoted intervals;

(ii) Implied volatilities; and

(iii) Credit spreads.

(d) Market-corroborated inputs.

D69. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

(a) The condition or location of the asset;

(b) The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph AG143F of IPSAS 41); and

(c) The volume or level of activity in the markets within which the inputs are observed.

D70. An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

D71. Paragraph D72 describes the use of Level 2 inputs for particular assets and liabilities.

D72. Examples of Level 2 inputs for particular assets and liabilities include the following:

(a) Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing

arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.

(b) Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.

(c) Building held and used. A Level 2 input would be the price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations.

(d) Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational, market, financial and non-financial factors.

Level 3 Inputs

D73. Level 3 inputs are unobservable inputs for the asset or liability.

D74. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

D75. Assumptions about risk include the risk inherent in a particular measurement technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurement technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs D76–D86).

Measuring Fair Value when the Volume or Level of Activity for an Asset or a Liability has Significantly Decreased

D76. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:

(a) There are few recent transactions.

(b) Price quotations are not developed using current information.

(c) Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets).

(d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.

(e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.

(f) There is a wide bid-ask spread or significant increase in the bid-ask spread.

(g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities.

(h) Little information is publicly available (e.g., for transactions that take place in a principal-to-principal market).

D77. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).

D78. This Appendix does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs D26–D29 and D31–D40 for a discussion of the use of measurement techniques when measuring fair value. Regardless of the measurement technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph D48). Otherwise, the measurement does not faithfully represent fair value. In some cases, determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.

D79. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurement technique or the use of multiple measurement techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurement techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.

D80. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.

D81. Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgment. An entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

Identifying Transactions that are not Orderly

D82. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:

(a) There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.

(b) There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.

(c) The seller is in or near bankruptcy or receivership (i.e., the seller is distressed).

(d) The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced).

(e) The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

D83. An entity shall consider all the following when measuring fair value or estimating market risk premiums:

(a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.

(b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:

(i) The volume of the transaction.

(ii) The comparability of the transaction to the asset or liability being measured.

(iii) The proximity of the transaction to the measurement date.

(c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

Using Quoted Prices Provided by Third Parties

D84. This Appendix does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Appendix.

D85. If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a measurement technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.

D86. Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.

Level 3 Inputs

D87. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g., an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

D88. Paragraph D89 describes the use of Level 3 inputs for particular assets and liabilities.

D89. Examples of Level 3 inputs for particular assets and liabilities include the following:

(a) Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.

(b) Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.

(c) Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.

(d) Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfill the liability (including market participants' expectations about the costs of fulfilling the liability and the compensation that a market participant would require for taking on the liability to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit

standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.

(e) Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

Appendix E

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 46.

Introduction

The Purpose of Measurement in Public Sector Financial Statements

BC1. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities and related revenues and expenditures that users need for accountability and decision making. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as:

(a) Whether the entity provided its services to constituents in an efficient and effective manner;

(b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;

(c) To what extent the burden on future-year taxpayers of paying for current services has changed; and

(d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

Service Delivery Objective and Public Sector Assets and Liabilities

BC2. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, in the public sector the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities are specialized—for example, roads and military assets. There may be a limited market for specialized assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.

BC3. Another common feature of public sector assets is that they are held to achieve policy objectives, such as service delivery, which need to be taken into account when measurement aims to derive a value that reflects existing use.

BC4. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.

BC5. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition, many governments have obligations that arise from monetary activities such as currency in circulation.

Measurement of Assets and Liabilities for Financial Reporting by Public Sector Entities

BC6. Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In

developing Chapter 7, the IPSASB took into account the special characteristics of the public sector, the needs of users, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.

BC7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.

BC8. The objective of measurement and the measurement bases in Chapter 7 of the Conceptual Framework address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows.

BC9. The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

Relationship Between IPSAS 46, Measurement and Other IPSAS

BC10. During the development of this Standard, the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one IPSAS, in order to provide a comprehensive "one stop shop". However, the IPSASB decided:

(a) Other IPSAS should identify which measurement basis should be applied and any specific measurement requirements relating to the assets or liabilities covered by the IPSAS, and address impairment, depreciation, and amortization.

(b) IPSAS 46 should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework. For example, IPSAS 45, *Property, Plant, and Equipment*, allows property, plant, and equipment measured at historical cost, current operational value, or fair value. The application guidance for these measurement bases is located in this Standard.

The objective of this Standard is to support consistent application of measurement bases referred to in other IPSAS.

BC11. The IPSASB decided to develop appendices for the following four measurement bases: historical cost basis, current operational value basis, cost of fulfillment basis, and fair value basis because the greater need for guidance relates to these four measurement bases.

Objective (paragraph 1)

BC12. The Standard's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which measurement bases should be used in IPSAS. This Standard refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.

Structure of Measurement Standard

BC13. One objective of the measurement project is to provide detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases will be used.

BC14. In order to satisfy this objective, the IPSASB agreed core text should define key terms and provide generic principles for measurement bases and techniques while the appendices would expand on principles for measurement bases and outline how measurement techniques are applied when estimating the value of an asset or liability measured by a specific measurement basis.

BC15. The IPSASB concluded this structure is appropriate because:

(a) Core text stands alone. Including principle level guidance for measurement bases and measurement techniques in the core text allows it to be read and applied independently of the appendices.

(b) Minimal duplication. The most significant challenge to overcome in structuring the material was to reduce the duplication of measurement technique guidance between the core text and the appendices, and within the appendices. This was a challenge because some measurement techniques can be applied to more than one measurement basis. The structure of the Standard allows for key measurement techniques and principles to be included once in the core text, and application of those principles to each measurement basis to be included in the appropriate appendix.

Scope and Definitions (paragraphs 2–6)

BC16. The Standard's scope conveys the definitions of measurement bases and the related appendices apply when another IPSAS requires measurement using one of the defined measurement bases. As part of its scoping decision, the IPSASB considered whether the Standard should include guidance on the measurement of assets held for sale. The IPSASB noted that the issues relating to the measurement of assets held for sale are similar to those relating to the measurement of impaired assets, which is outside the scope of the project. Therefore, the IPSASB decided that the measurement of assets held for sale should also be excluded and issued a separate IPSAS (IPSAS 44, *Non-Current Assets Held for Sale and Discontinued Operations*).

Initial Measurement (paragraphs 7–16)

BC17. The IPSASB discussed the applicability of the subsequent measurement framework to initial and subsequent measurement. Unless otherwise required or permitted by another IPSAS, the IPSASB concluded measurement bases identified in the subsequent measurement framework are applicable to initial measurement at deemed cost when the transaction price does not faithfully present relevant information about the entity in a manner that is useful in holding the entity accountable, and for decision-making purposes.

BC18. On the transaction date an asset or liability is initially measured at its transaction price, plus or minus transaction costs, or, as noted in paragraph BC17, at a deemed cost. This approach is applied regardless of whether the current value model or historical cost model is subsequently applied when measuring assets and liabilities in the financial statements.

BC19. A transaction price is applied, where appropriate, because transactions occurring in orderly markets are negotiated between parties at arm's length and are presumed to faithfully present the economics of the transaction. The transaction price is therefore useful for decision-making purposes and to the users of the financial information to hold decision-makers to account. Where transaction price is not appropriate, a deemed cost is calculated using a current value measurement basis to approximate the value of the asset or liability on the transaction date.

BC20. After measurement on the transaction date the entity makes an accounting policy choice, where permitted, to apply a historical cost model or current value model to reflect the measurement objective of the item being measured.

Deemed Cost

BC21. With the development of current operational value for assets held for operational capacity, the IPSASB decided deemed cost should be an amount used as a surrogate for transaction price. The definition of deemed cost in IPSAS 33, *First-Time Adoption of Accruals Basis International Public Sector Accounting Standards*, was replaced to reflect the IPSASB's decision and allows for initial measurement of property, plant, and equipment transactions where the transaction price does not faithfully present relevant information to be measured at current operational value, in addition to fair value.

BC22. The IPSASB concluded the usefulness of information that current operational value provides financial statement users in subsequent measurement for property, plant, and equipment, held for their operational capacity also applies at initial measurement.

BC23. The IPSASB concluded that:

(a) Fair value faithfully represents the value the public sector entity accrues as a result of the transaction when the property, plant, and equipment, is held for its financial capacity; and

(b) Current operational value faithfully represents the value of the property, plant, and equipment, to the public sector entity when the transaction occurs for assets held for their operational capacity.

BC23A. In August 2024, the IPSASB published Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement* proposing to align the initial measurement of inventories acquired through a non-exchange transaction with IPSAS 46. Some respondents to ED 90 requested that the IPSASB clarify what current value measurement basis should be applied to determine the deemed cost of inventory acquired in a non-exchange transaction, noting that IPSAS 12 refers the reader to IPSAS 46 and does not specify whether an entity should estimate deemed cost of an asset using current operational value or fair value.

BC23B. The IPSASB considered these views, noting that implementation guidance on Section B: Selection of Measurement Bases could be enhanced to ensure the consistent determination of deemed cost of a non-exchange transaction. The IPSASB discussed whether the guidance should be included in IPSAS 12 instead of IPSAS 46; however, it decided that it should be included in IPSAS 46, as this standard provides generic guidance to ensure the consistent application of measurement bases in its scope and is relevant to other IPSAS.

BC23C. In response to constituents' comments, the IPSASB decided to add implementation guidance that notes that whether an entity applies current operational or fair value depends on the primary objective for which the entity holds the asset.

Amendments to Other IPSAS

BC24. The initial measurement guidance developed in this Standard, is principles-based and broadly applicable across the IPSAS suite of standards. When making amendments to other IPSAS as a result of IPSAS 46, the IPSASB agreed the initial measurement requirements in individual IPSAS would not be replaced by the initial measurement principles in IPSAS 46. The IPSASB concluded the more specific initial measurement guidance in specific IPSAS continues to be relevant and therefore should be retained.

Subsequent Measurement (paragraphs 17–53)

Use of the Historical Cost Model or Current Value Model

BC25. The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB considered the options for measurement subsequent to initial recognition in existing IPSAS with a view to eliminating or reducing those options.

BC26. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).

BC27. The Conceptual Framework states that it is not possible to identify a single measurement model that best meets the measurement objective and acknowledges both historical cost and current value measurements models.

BC28. The IPSASB concluded that:

(a) Where an accounting policy choice exists in an IPSAS to measure using the historical cost model or current value model, it would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and

(b) Such a step would be outside the scope of this Standard, which is to provide requirements and guidance on the definitions and application of measurement bases (i.e., what is meant by each measurement basis and how to derive measurement bases), rather than to specify where they should be used. The latter is a decision for individual standards.

BC29. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Exposure Draft on the Conceptual Framework and the Exposure Draft on Measurement advocated the continued widespread use of the historical cost basis, mostly in combination with other measurement bases. Supporters of historical cost referenced the accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.

BC30. Conversely, those who supported current values linked this view to both decision making and accountability, arguing that the cost of service provision should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price.

Determining the Measurement Model

BC31. Some respondents to the Measurement Exposure Draft recommended guidance be developed explaining how to determine the appropriate measurement model. The IPSASB agreed clarifications would support the consistent application of the guidance and developed Implementation Guidance to expand on the accounting policy choice.

BC32. The IPSASB noted the historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

(a) A more senior level of government for all entities in a sector or jurisdiction; or

(b) An applicable regulatory framework in the sector or jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity considers the information it believes best meets the qualitative characteristics.

BC33. In selecting the appropriate measurement model, the reporting entity should consider whether it wants its asset or liability to reflect the value of the transaction at the date of initial recognition or the current value of the same transaction on the date of measurement.

Historical Cost (Appendix A)

Measurement Techniques

BC34. The IPSASB agreed initial measurement of an asset or a liability should be at its transaction price, adjusted for transaction costs, or deemed cost. Historical cost is the consideration given to acquire, construct, or develop an asset, plus transaction costs, or the consideration received to assume a liability, minus transaction costs, at the time of the asset's acquisition, construction, or development, or when the liability is incurred.

BC35. Since the measurement framework applies only to subsequent measurement, no measurement techniques apply to the historical cost basis. This is because after initial measurement, the gross carrying amount of an asset or liability measured at the historical cost basis remains unaffected by changes in the underlying current market conditions (i.e., no measurement techniques are applied).

Financial Instruments Measured at Historical Cost

Amortized Cost

BC36. The amortized cost of a financial asset or financial liability reflects estimates of future cash flows discounted at a rate that is not updated after initial recognition. For loans given or received, if interest is receivable or payable regularly, the amortized cost of the loan typically approximates the amount originally paid or received. Therefore, the amortized cost of a financial asset or liability is considered to be a form of the historical cost basis.

Current Operational Value (Appendix B)

BC37. Most responses to the April 2019 Measurement Consultation Paper agreed with the IPSASB's preliminary view that fair value is relevant and applicable in measuring some assets and liabilities in the public sector. Constituents' concerns with fair value related to the fact that when an item is held for its operational capacity, as is often the case in the public sector, fair value is difficult and inappropriate to apply because the following concepts generally are not applicable:

(a) Highest and best use; and

(b) Maximizing the use of market participant data.

BC38. While respondents agreed the fair value definition proposed is applicable in some circumstances, they also noted the definition is unlikely to be appropriate as a current value measurement basis in most cases. Respondents expressed the view that a public sector specific measurement is required.

BC39. The IPSASB agreed with respondents' views and developed a current value measurement basis unique to the public sector. Given fair value is applied to items held for their financial capacity, this basis was developed specifically for assets held for their operational capacity.

BC40. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. Holding an asset to meet a policy objective often results in an asset being held in a capacity other than one that satisfies its highest and best financial use. For example, an entity may have a policy objective to provide medical services to citizens of a city center. While operating a building the entity owns as a hospital may not be in the best financial interests of the entity, it does satisfy the policy objective.

BC41. The IPSASB agreed that, when an asset is held for its operational capacity, the most relevant information to the users of financial information is the current value of the asset in its existing use. This provides users with useful information in the public sector:

(a) In the statement of financial position, it reflects the amount an entity would pay at the measurement date for the remaining service potential of its existing assets.

(b) In the statement of financial performance, the consumption of the asset, through depreciation, reflects the amount the entity would incur during the period to provide the service at the prevailing prices when an asset is measured. This differs from the historical cost basis, which reflects consumption of the asset in terms of the prices that prevailed when the asset was acquired, constructed, or developed.

Developing a Public Sector Specific Measurement Basis

BC42. In responding to comments received to the April 2019 Measurement Consultation Paper, the IPSASB developed a new measurement basis that addressed the challenges in measuring most public sector assets. Specifically, the measurement basis considered how to present assets held for their operational capacity in the financial statements that provided users of those reports with relevant and useful information.

BC43. The Measurement Exposure Draft, issued in April 2021, defined current operational value as the value of an asset used to achieve the entity's service delivery objectives at the measurement date. The Exposure Draft

clarified the definition by proposing several key principles that were relevant for a public sector measurement basis. These principles included:

(a) Current asset;

(b) Current use of the asset;

(c) Current location of the asset;

(d) Service policy objective of the asset;

(e) Entry price;

(f) Least costly manner;

(g) Current market conditions;

(h) Use of observable inputs; and

(i) Entity-specific valuation.

BC44. The Exposure Draft included an Alternative View proposed by two members of the IPSASB. The Alternative View disagreed with the proposal in the Exposure Draft as follows:

(a) The income approach is not appropriate as a measurement technique for current operational value;

(b) The lack of clarity about the accounting for surplus capacity;

(c) The proposed definition of current operational value could permit either entry or exit values; and

(d) The lack of clarity in the proposed definition of current operational value risks not achieving the qualitative characteristics of financial reporting.

BC45. In responding to the Exposure Draft, stakeholders were clear a public sector measurement basis was necessary. Respondents strongly supported the inclusion of fair value, aligned with IFRS 13, but echoed responses to the Consultation Paper, that fair value would not provide financial statement users with relevant and useful information for assets held for their service capacity. While there was support for current operational value, respondents indicated further clarification on its application in practice was necessary.

BC46. In responding to stakeholder comments, the IPSASB updated current operational value by:

(a) Removing the income approach as a separate measurement technique for current operational value. The IPSASB agreed it is unlikely discounting future cash flows, whether inflows or outflows, would be relevant in determining the amount an entity would pay for the remaining service potential of an asset.

(b) Clarifying when unused capacity is included in current operational value by developing implementation guidance, including a decision tree and examples.

(c) Revising the definition of current operational value to the amount an entity would pay for the remaining service potential of an asset at the measurement date. This clarified current operational value is an entry price and gave those applying the measurement basis a clearer understanding of the basis.

BC47. Finally, in developing the current operational value for this Standard, the IPSASB revisited each principle proposed in the Exposure Draft. The IPSASB reaffirmed each principle was necessary to present relevant and useful information regarding assets held for their operational capacity. The IPSASB also clarified each principle to enhance understandability and facilitate application in practice. The following principles are applicable to current operational value:

(a) Existing asset;

(b) Existing use;

(c) Existing location;

(d) Remaining service potential;

(e) Entry price;

(f) Least costly manner;

(g) Current market conditions;

(h) Use of observable inputs; and

(i) Entity-specific valuation.

Current Operational Value – Amount the Entity Would Pay

BC48. When assets are held for their operational capacity in the public sector, they are held to achieve a policy objective. A strong indication of the value of the operational capacity of an asset is the amount the entity would pay for the remaining service potential of the asset to achieve its policy objective. The IPSASB decided current operational value should reflect this concept by estimating the amount that would be paid for the remaining service potential of an asset (i.e., an entry price) rather than using an exit price (i.e., the amount that could be received to sell the asset), which does not necessarily reflect the amount that would be paid for the remaining service potential of an asset.

BC49. Estimating the amount that would be paid for the remaining service potential of an asset (i.e., the entry price) requires an entity to determine the price that would be paid to acquire that asset in an exchange transaction. The IPSASB decided estimating the price that would be paid to acquire the asset in an exchange transaction remained relevant, even in circumstances where the asset being measured is acquired through a non-exchange transaction. For an estimate to provide relevant and reliable information it should be based on assumptions that can be verified and duplicated by the user of the information. Assuming the asset is acquired, constructed, or developed, in an exchange transaction enables the entity to present useful information allowing the user to observe the amount an entity would pay for the remaining service potential of the asset.

Revision of IPSAS 46 as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*

The Amount the Entity Would Pay – Least Costly Manner

BC49A. During the development of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* and the analysis of the responses received by the IPSASB for Exposure Draft 84, *Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)*, the IPSASB noted that ‘least costly manner’ could be interpreted to include concessionary elements, such as those received in concessionary leases.

BC49B. The IPSASB noted that the inclusion of a concessionary element when determining the current operational value of an asset would not provide users with information that is a faithful representation of the transaction. The IPSASB agreed that the ‘least costly manner’ should not be interpreted to include a concessionary element, because current operational value is a measurement basis that achieves the qualitative characteristics in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, such as faithfully presenting relevant valuation information about the asset to users.

BC49C. The IPSASB decided to clarify the application of the current operational value principle, ‘least costly manner’. The amendments to IPSAS 46 seek to ensure consistent application of current operational value.

Current Operational Value – Existing Asset

BC50. During the development of this Standard, the IPSASB discussed alternative approaches to capture the value of public sector assets. Based on some responses to the Exposure Draft, the IPSASB considered whether measuring the asset based on the value of the service or benefits the asset provides results in useful and relevant information when presenting an asset held for its operational capacity – i.e., to deliver direct services to the public, and/or to provide a wider community benefit.

BC51. The IPSASB rejected the idea of measuring public sector assets based on the value of services or benefits they provide because:

(a) It is inconsistent with how all other non-financial assets are measured on the statement of financial position;

(b) The IPSASB agreed that a public sector measurement basis that values the asset by valuing the services delivered to the public, or the wider community benefits to the public, would result in the asset recognition criteria not being satisfied, as there is no well-established method in practice to derive such a valuation in a relevant and reliable way.

BC52. The IPSASB agreed that the public sector measurement basis is based on the value of the physical items that comprise the asset. For example, a public sector entity provides a service for passenger vehicles to cross a water way. The service is currently being delivered with a tunnel. A current operational value measurement estimates the amount an entity would pay for the remaining service potential of the asset. In this example, the tunnel. Current operational value does not measure the value of the service and, by extension, alternative assets (such as a bridge or ferry service) that could also provide the same service.

Current Operational Value – Existing Use

BC53. An asset supports an entity in achieving its policy objectives in its existing use. Existing use is the current way an asset or group of assets is used. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. This approach reflects the economic position of the entity, rather than the position prevailing in a hypothetical market.

BC54. The IPSASB agreed the concept of existing use is core to current operational value. The IPSASB agreed with responses to its Exposure Draft that fair value does not present relevant measurement information for assets held for their service capacity because fair value requires assets to be measured at their ‘highest and best use’. A public-sector-specific measurement basis must measure assets as they are currently being used to meet the entity’s policy objectives. This measurement will provide users of the entity’s financial information with the value of the asset to the entity as it is currently being used.

Current Operational Value – Existing Location of the Asset

BC55. The IPSASB noted that, in carrying out a valuation under the cost approach, valuation professionals would consider the cost of a site suitable for the delivery of the service delivery objectives from a modern equivalent asset. This might be a site of a similar size and in a similar location to the actual site. Where the actual site would no longer be considered appropriate because, for example, the service would be delivered more efficiently or effectively from another location, a hypothetical site in an appropriate location would be used as the basis for the land valuation, subject to discussion and agreement with the entity.

BC56. Despite this, the IPSASB agreed that a valuation based on an alternative site would not achieve the objective of a current operational value measurement because it would not provide a value of the existing asset in its existing use. This is because delivering the service from another location is unlikely to be in the public interest, given that the location where the asset is currently situated was selected for service delivery needs. Relocating the asset to another location is a separate, future policy decision that should not be taken into

consideration when measuring the asset. Current operational value valuations should be based on delivering the entity's goods and/or services from the existing location.

BC57. The IPSASB noted that measuring land held for its operational capacity at its existing location, total capacity and actual size may result in a valuation that is similar to a market participant valuation, or fair value.

Current Operational Value – Measurement Techniques

BC58. To support the application of current operational value, the IPSASB agreed the market approach and the cost approach reflect the attributes of the measurement basis and can be applied in estimating the value of the asset when measured at current operational value. No hierarchy was developed to select the measurement technique. The IPSASB agreed the selection of the measurement technique that approximates the value of the asset under current operational value should be based on judgment. In most cases the IPSASB believes the selection should be straightforward as the measurement technique is generally selected based on the data available to the entity measuring the asset.

BC59. For example, an active market for an identical asset may exist for certain types of assets. In these circumstances applying the market approach is likely to be a straightforward valuation. As the asset becomes more specialized, the existence of an active market likely decreases. In these circumstances the cost approach is relevant.

BC60. The IPSASB agreed the income approach is not an appropriate measurement technique when estimating the value of the asset when measured at current operational value. Given public sector assets often generate little to no cash flows, and generally cash flows are insufficient to cover operating expenses, the IPSASB concluded discounting future income streams would be impracticable. Furthermore, given the nature of current operational value, the income approach would not be applied in conjunction with another measurement technique because discounting future cash flows is not necessary given the market approach assumes pricing for the asset is available on the measurement date, and the cost approach assumes the production or development of the asset is immediate. However, the exclusion of the income approach as a measurement technique to estimate current operational value does not preclude the use of the present value technique in the market approach or the cost approach when the time value of money is material.

Use of Current Operational Value throughout IPSAS

BC61. A review of existing IPSAS was performed to determine whether the public sector specific measurement basis, current operational value, should be added to, or replace, existing measurement bases in each IPSAS.

BC62. The IPSASB agreed current operational value should be available to estimate the value of property, plant, and equipment within the scope of IPSAS 45. The IPSASB added current operational value to historical cost and fair value as measurement bases available to estimate property, plant, and equipment because many items of property, plant, and equipment are held for their operational capacity in the public sector, which may not be accurately represented when applying fair value.

BC63. The IPSASB had identified other instances where current operational value may be appropriate throughout its literature. However, the IPSASB agreed any additional changes to measurement bases are best made through projects specific to the IPSAS in question to allow stakeholders to focus on the impact of the proposal. The IPSASB did not propose current operational value be added to any other IPSAS when this Standard was issued.

BC63A. After approving this Standard in March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in this Standard and the updated objective of measurement of assets in the updated Conceptual Framework: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*. See paragraphs

BC92-BC105 for the analysis as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*.

Cost of Fulfilment (Appendix C)

BC64. In developing Cost of Fulfillment, the IPSASB considered concepts applied by the IASB related to Fulfillment Value. Both measurement bases share many characteristics. However, one key difference between the bases is fulfillment value requires a risk premium be included when measuring a liability. A risk premium, also known as a risk adjustment or risk margin, is the price for bearing the uncertainty inherent in the cash flows.

BC65. In developing its April 2019 Measurement Consultation Paper, the IPSASB proposed including the requirement to include a risk premium when measuring liabilities using the Cost of Fulfillment measurement basis. Respondents challenged the rationale and questioned the need for a risk premium in the public sector. Respondents:

(a) Questioned whether the risk premium provides faithfully representative and relevant information to users about the extent of the entity's liabilities to be settled in the future;

(b) Noted it does not reflect the least costly manner to fulfill the liability; and

(c) Expressed the view that a risk premium reflects a bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.

BC66. The IPSASB agreed concerns raised by stakeholders could apply in some circumstances and agreed that an assessment as to whether to include a risk premium in the valuation of a liability was specific guidance that should be provided on a standard-by-standard basis.

Fair Value (Appendix D)

BC67. During the development of this Standard, the IPSASB considered whether the fair value measurement basis was relevant to measuring assets and liabilities held by public sector entities. The IPSASB concluded that:

(a) There are assets and liabilities held by public sector entities that should be measured at fair value; and,

(b) The term "fair value" should have the same meaning as that established by IFRS 13, *Fair Value Measurement*.

BC68. In reaching these two conclusions the IPSASB noted that there were references to fair value throughout IPSAS. However, the definition of fair value in the initial suite of IPSAS was derived from a pre-IFRS 13 definition. IFRS 13 defines fair value as an exit value, as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

BC69. The IPSASB's 2014 Conceptual Framework did not include fair value in its list of measurement bases because the IPSASB considered that the IFRS 13 meaning of fair value would not be appropriate for many public sector assets and liabilities, because it is an exit value. However, during the development of this Standard, the IPSASB's work on financial instruments has demonstrated that an exit-based definition of fair value is relevant for many financial instruments and more generally assets held for financial capacity rather than operational capacity.

BC70. The IPSASB decided that if the term "fair value" continues to be used in IPSAS, the same meaning as that in IFRS 13 should apply. This avoids confusion and supports good quality measurement, when using this measurement basis.

BC71. In June 2018 the IPSASB approved IPSAS 41, *Financial Instruments*, which is an IFRS-aligned IPSAS. IPSAS 41 identifies fair value as a measurement basis applicable to financial instruments. The IPSASB had

already decided, in September 2017, that the Measurement project should allow for measurement at fair value, with the issue being one of how to integrate the IFRS 13 definition of fair value into IPSAS. The IPSASB decided that IPSAS 46 should include the majority of IFRS 13 text to ensure that its definition of fair value would be consistent with that in IFRS 13, and adequately support IPSAS 41's requirements with respect to measurement of financial instruments at fair value. On that basis the Standard's fair value appendix, Appendix D, has reproduced the majority of IFRS 13 text and aims to ensure that the Standard's definition of fair value is the same as that established in IFRS 13.

Use of Fair Value throughout IPSAS

BC72. A review of existing IPSAS was performed to determine whether the updated fair value was applicable in IPSAS where the legacy "fair value" definition was applied. The IPSASB considered the components of the IFRS 13 definition of fair value to identify the key indicator or indicators of the appropriateness of fair value. The IPSASB concluded that the exit versus entry distinction is not useful in selecting measurement bases (see BC7.19–BC7.22 of the IPSASB Conceptual Framework). The IPSASB noted that some jurisdictions considered the specialized versus non-specialized distinction to be useful in considering whether fair value is an appropriate measurement basis. The IPSASB concluded that while the specialization of an asset is a useful distinction, it is not a clear determinant when assessing the appropriateness of fair value. Rather, the IPSASB agreed that an entity's intent to hold the asset or liability for either financial or operational capacity is the clearest indicator. The IPSASB concluded that fair value is an appropriate measurement basis when the asset is held, or the liability incurred, primarily for its financial capacity.

BC73. The IPSASB also cautioned against a "blanket approach" of fair value appropriateness by Standard, as there may be instances where the use of fair value appropriateness may differ by reporting entity in a consolidation, or where a cash-generating or non-cash-generating asset may have hybrid measurement objectives. It is important to consider transaction-specific and entity-specific considerations within each IPSAS when selecting measurement bases.

BC74. In cases where assets held for operational capacity and assets held for financial capacity are within the scope of the same IPSAS, an entity should exercise professional judgment, consider entity- and transaction-specific factors, and apply accounting principles in existing IPSAS. The primary measurement objective, and in turn the measurement basis, is determined for each individual asset or class of assets (i.e., assets with similar nature and use to an entity's operations within the same IPSAS). The IPSASB concluded that accounting principles to guide an entity to group assets of similar nature and determine the intended primary objective are sufficiently illustrated in existing IPSAS guidance.

BC75. The IPSASB concluded that the need for consequential amendments will be decided on a case-by-case basis in accordance with IPSAS 46. In performing this analysis, the IPSASB reviewed each IPSAS and decided to retain the term fair value throughout IPSAS and apply this Standard's definition except for:

(a) IPSAS 43, *Leases*,[3] where the term and existing fair value definition in IPSAS 43 are retained;

(b) IPSAS 21, *Impairment of Non-Cash-Generating Assets*, where the term and existing fair value definition in IPSAS 21 are retained; and

(c) IPSAS 32, *Service Concession Arrangements: Grantor*, where the term and existing fair value definition in IPSAS 32 are retained.

In each instance where the term and existing fair value definition are retained, the IPSASB decided changes to these definitions of fair value should be considered as part of any projects specific to these IPSAS.

[3] If IPSAS 46, *Measurement* is adopted prior to IPSAS 43, *Leases*, the measurement requirements of this standard do not apply to IPSAS 13, *Leases*.

BC76. As noted in BC10, guidance in IPSAS 46 is generic in nature. As such, specific measurement guidance in IFRS 13 has been located in the applicable IPSAS. For example, IFRS 13 paragraphs 34–56 and 70–71 are specific to measuring financial instruments and have been added to IPSAS 41, *Financial Instruments*.

Value in Use

BC77. One of the project's objectives was to provide more detailed guidance on the implementation of commonly used measurement bases and the circumstances under which these measurement bases will be used. In considering whether this Standard should include measurement guidance related to value in use, the IPSASB concluded value in use:

(a) Is not commonly used – value in use is limited to impairment evaluations in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*; and

(b) Is well understood both in application and identifying when it should be applied – IPSAS 21 and IPSAS 26 include extensive measurement guidance when applying a value in use measurement.

BC78. The IPSASB agreed including value in use guidance in this Standard is unnecessary. This decision was supported by responses to the Measurement Consultation Paper.

Application of Measurement Techniques

BC79. Since measurement techniques consider the attributes of measurement bases, some techniques can be applied to multiple bases. As such, the IPSASB decided to place generic measurement technique guidance in the core text to reflect the generic nature of the measurement technique and enable that guidance to be applicable across multiple measurement bases.

BC80. The IPSASB considered how a measurement technique can be used to estimate a value of an asset or a liability under a measurement basis when a public sector entity uses data available to estimate and reflect the attributes of that basis. Based on this analysis, the IPSASB concluded:

(a) The market approach can be used to estimate measures under the fair value and current operational value measurement bases;

(b) The income approach can be used to estimate measures under the fair value and cost of fulfillment measurement bases; and

(c) The cost approach can be used to estimate measures under the fair value and current operational value measurement bases.

The IPSASB noted that judgment is required to select and apply the most appropriate technique to estimate a value of an asset or a liability under a particular measurement basis for each transaction, or event, that best meets the objective of that basis.

BC81. In developing this Standard, the IPSASB elected to align with IFRS 13, *Fair Value*, adopting all measurement techniques set out in IFRS 13. The cost approach is considered an appropriate measurement technique to approximate Fair Value as the cost to replace an asset is consistent with an exit price definition of fair value. An entity's cost to replace an asset would equal the amount that a market participant buyer of that asset (that would use it similarly) would pay to acquire it (i.e., the entry price and the exit price would be equal in the same market).

Depreciation and Amortization

BC82. Depreciation is a charge for the consumption of an asset over its estimated useful life. The Standard does not address depreciation. Requirements and guidance on depreciation are provided at standards level. For example, IPSAS 45, *Property, Plant, and Equipment*, addresses:

(a) The unit of account for depreciation;

(b) The recognition of depreciation;

(c) The point at which depreciation of an asset begins;

(d) The relationship between economic and useful lives;

(e) The circumstances under which land may be depreciated;

(f) Depreciation methods; and

(g) The relationship between the revenue generated by an asset and depreciation.

BC83. Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level, and the Standard does not address amortization. IPSAS 31, *Intangible Assets*, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.

BC84. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example, IPSAS 45 requires that assets on the current value model with useful lives are depreciated. IPSAS 16, *Investment Property*, does not require depreciation of an investment property that is measured in accordance with the current value model subsequent to initial recognition.

Disclosures

BC85. The scope of the measurement project included the development of enhanced measurement disclosures that would apply across the IPSAS. In developing disclosures, the IPSASB agreed no additional disclosures are required for assets and liabilities measured using the historical cost model. As no remeasurement occurs, there is no additional information to disclose as part of subsequent measurement.

BC86. For assets and liabilities measured using the current value model, the IPSASB agreed additional disclosures are required. With recurring remeasurements, new information is available as at each measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making.

BC87. The IPSASB developed disclosures that are to be applied consistently across the IPSAS that require assets or liabilities be measured using a measurement basis available in the current value model. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied.

BC88. In March 2022, the IPSASB reconfirmed the location of the disclosure requirements. The IPSASB considered whether generic measurement disclosure requirements that apply across the IPSAS should be consolidated in the Measurement standard. The IPSASB expressed concern about splitting the disclosure requirements. The IPSASB agreed to maintain the existing approach of inserting the disclosure requirements in the relevant IPSAS to clearly indicate the disclosures to be applied.

Improvements to Current Value Measurement Disclosures

BC88A. As part of the IPSASB's review of the applicability of current operational value in ED 90, the IPSASB reviewed the current value measurement disclosures and concluded that the term 'recurring or non-recurring' is not necessary when an IPSAS only requires recurring current value measurement of assets. The IPSASB noted that whether a current value measurement basis is applied on a recurring basis after initial recognition is specified in the relevant IPSAS. Therefore, having these terms can lead to inconsistent application of the current value measurement disclosure principles.

BC88B. In August 2024, the IPSASB published Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, which proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' across IPSAS. While respondents supported the proposal in Part 4 of ED 90, a few respondents noted that the removal of 'recurring and non-recurring' expanded the scope to initial recognition for fair value measurement using significant unobservable inputs (Level 3).

BC88C. The IPSASB agreed that the removal of 'recurring' in paragraphs that do not stipulate 'in the statement of financial position after initial recognition' could be interpreted to require current value measurement disclosures for assets initially measured at deemed cost. In responding to constituents' comments, the IPSASB updated relevant current value measurement disclosures paragraphs across IPSAS to ensure the scope of current value measurement disclosures is limited to assets measurement using current value measurement basis in the statement of financial position after initial recognition.

Transition

BC89. The IPSASB concluded that although IPSAS 46 is a major new standard that incorporates the IFRS 13, *Fair Value,* concept into IPSASB literature, much of the Standard is a codification of existing measurement guidance currently spread across many individual IPSAS. IPSAS 46 brings together generic measurement guidance, while transaction-specific guidance remains in those individual IPSAS.

BC90. Consequently, the IPSASB decided that IPSAS 46 should be effective for annual periods beginning on or after January 1, 2025. Because IPSAS 46 applies when other IPSAS require or permit application of the measurement bases, the IPSASB believes that the extended transition period for IPSAS 46 provides enough time for entities, their auditors and users of financial statements to prepare for implementation of its requirements.

BC91. The IPSASB proposed prospective application because a change between current value measures would be inseparable from a change in the current value measurements (i.e., as new events occur or as new information is obtained, e.g., through better insight or improved judgment). Therefore, the IPSASB concluded that IPSAS 46 should be applied prospectively (in the same way as a change in accounting estimate).

Analysis as a result of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*

Scope

BC92. The IPSASB developed current operational value in response to constituents' concerns received on the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSAS should be in the scope of the Measurement Application Phase project, the IPSASB identified IPSAS that require measurement of assets at current values or non-historical cost measurement basis.

BC93. The following IPSAS were in the scope of the Measurement Application Phase project:

(a) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*;

(b) IPSAS 12, *Inventories*;

(c) IPSAS 16, *Investment Property*;

(d) IPSAS 21, *Impairment of Non-Cash-Generating Assets*;

(e) IPSAS 27, *Agriculture*;

(f) IPSAS 31, *Intangible Assets*;

(g) IPSAS 32, *Service Concession Arrangements: Grantor*;

(h) IPSAS 36, *Investments in Associates and Joint Ventures*;

(i) IPSAS 37, *Joint Arrangements*;

(j) IPSAS 40, *Public Sector Combinations*;

(k) IPSAS 41, *Financial Instruments*; and

(l) IPSAS 43, *Leases*.

Applicability of Current Operational Value

BC94. During the development of ED 90, the IPSASB had concluded current operational value is an applicable measurement basis:

(a) At initial measurement, for the determination of deemed cost, for inventories (IPSAS 12) and intangible assets (IPSAS 31) acquired through a non-exchange transaction;

(b) At subsequent measurement for inventories (IPSAS 12) held for:

(i) Distribution at no charge (a transfer expense) or for a nominal charge;

(ii) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or

(iii) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge;

(c) At subsequent measurement for intangible assets (IPSAS 31) held for their operational capacity, when the entity chooses the current value model as its accounting policy choice;

(d) At subsequent measurement for service concession assets (IPSAS 32) when the entity chooses the current value model as its accounting policy choice in accordance with IPSAS 31 or IPSAS 45; and

(e) At subsequent measurement for right-of-use assets (IPSAS 43) when the lessee chooses the current value model as its accounting policy choice in accordance with IPSAS 45.

BC95. The IPSASB had concluded current operational value is applicable to these transactions based on the intended use or the entity's reasons for holding the asset (i.e., the assets are held for their operational capacity) and current operational value will present more relevant measurement information to users in a manner that is useful in holding the entity to account, and for decision-making purposes.

BC96. The IPSASB had agreed that amendments are not required to IPSAS 32 and IPSAS 43 on the applicability of current operational value at subsequent measurement for service concession assets and right-of-use assets because these IPSAS cross reference to IPSAS 31 and IPSAS 45. Revisions of IPSAS 12 and IPSAS 31 as a result of ED 90 were proposed, further information on the amendments and the IPSASB's decision on the evaluation of current operational value can be found in paragraphs BC16-BC23 of IPSAS 12 and BC107-BC108, respectively.

BC97. The IPSASB had concluded that current operational value is an applicable current value measurement for:

(a) Service concession assets subsequently measured in accordance with IPSAS 31 and IPSAS 45 because consistency in the subsequent measurement guidance ensures comparability.

(b) Right-of-use assets subsequently measured in accordance with IPSAS 45 because the subsequent measurement guidance should not change depending on whether the asset is owned or leased.

BC98. The IPSASB had concluded that current operational value is not an applicable current value measurement for assets in the scope of:

(a) IPSAS 16 because these are held for their financial capacity;

(b) IPSAS 27 because the biological transformation these assets undergo during their lifespan is best reflected by fair value less costs to sell;

(c) IPSAS 41 because financial assets do not have service potential on their own; and

(d) IPSAS 36 because current operational value does not reflect the investor's ability to participate in the financial and operating decisions of the investee.

BC99. The IPSASB noted that measurement requirements of assets within the scope of IPSAS 37 and IPSAS 40 are determined by reference to other IPSAS. Thus, it was decided that this final pronouncement should not amend IPSAS 37 and IPSAS 40, and the measurement of an asset within their scope should continue to be determined by reference to the relevant IPSAS.

Applicability of Current Operational Value – Right-of-Use Assets

BC100. During the development of ED 90, the IPSASB evaluated the applicability of current operational value for right-of-use assets (i.e., assets in the scope of IPSAS 43) subsequently measured in accordance with IPSAS 45.

BC101. The IPSASB had noted that the value of right-of-use assets is most commonly estimated by discounting the expected lease payments. Considering this, the IPSASB discussed whether current operational value could be used to subsequently measure right-of-use assets. The discussion resulted in the following two views:

(a) View 1. An entity should discount cash flows when applying the market approach and the cost approach to estimate the current operational value of an asset at subsequent measurement. For example, applying the market approach would require an entity to estimate the current operational value of a right-of-use asset by discounting observable lease payments of an identical or comparable right-of-use asset in an active market.

(b) View 2. The absence of the income approach to convert future amounts to a single current amount, results in limited practical application of current operational value to estimate the value of a right-of-use asset at subsequent measurement.

BC102. Having considered both views, the IPSASB had concluded that the ability to discount cash flows is a concept that is not limited to one measurement technique and that current operational value is an applicable measurement basis for right-of-use assets subsequently measured in accordance with IPSAS 45 using the market approach or cost approach.

Responses to the Applicability of Current Operational Value at Initial and Subsequent Measurement Proposed in ED 90

BC103. In August 2024, the IPSASB published Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*. The following proposals in ED 90 received strong constituent support:

(a) Current operational value is an applicable measurement basis for inventories (IPSAS 12) acquired through a non-exchange transaction;

(b) Current operational value should replace 'current replacement cost' in the measurement of inventories (IPSAS 12.17) at 'the lower of cost and current replacement cost';

(c) Current operational value is an applicable subsequent measurement basis for service concessions assets (IPSAS 32) when the entity chooses the current value model as its accounting policy choice in accordance with IPSAS 45; and

(d) Current operational value is an applicable subsequent measurement basis for right-of-use assets (IPSAS 43) when the lessee chooses the current value model as its accounting policy choice in accordance with IPSAS 45.

BC104. Some respondents noted the following issues:

(a) Current operational value cannot be applied to right-of-use assets without the income approach as one of its measurement techniques;

(b) Additional guidance is required to determine current operational value of a right-of-use asset because current operational value was developed for tangible assets, noting uncertainty regarding the applicability of certain current operational value principles-'modern equivalent' and existing location'; and

(c) Additional guidance is required to assist preparers in estimating the current operational value of a right-of-use asset when using the cost approach.

BC105. The IPSASB considered these views and decided to proceed with the strongly supported proposals above because:

(a) Present value techniques are not exclusive to the income approach; rather, an entity applies present value techniques when estimating current operational value using the market or cost approach when the time value of money is material;

(b) Though current operational value was first applied to property, plant, and equipment, this should not be interpreted to mean current operational value was developed exclusively for tangible assets; and

(c) IPSAS 46 includes principles-based guidance to estimate current operational value using the cost approach. Additionally, the IPSASB noted that both the market and the cost approach are well-understood measurement techniques.

BC106. Two respondents sought clarification on the IPSASB's conclusion on the applicability of the current operational value for assets in the scope of IPSAS 27 and IPSAS 41, respectively. The IPSASB discussed that though assets in the scope of IPSAS 27 can be distributed at no charge or for a nominal charge, fair value less costs to sell provides more relevant and useful information for decision-making as it reflects the maximization of the output. The IPSASB discussed that financial assets (IPSAS 41) can contribute to service delivery objectives; however, it does not have service potential on their own. The IPSASB considered these and decided to proceed with its decision that current operational value is not an applicable current value measurement for such assets.

BC107. ED 90 proposed that current operational value is an applicable current value measurement basis at initial and subsequent measurement for intangible assets and proposed to amend IPSAS 31. While a majority of respondents to ED 90 supported the proposal, a significant number of respondents did not. The majority of these views either supported a component or the entirety of the Alternative View included in ED 90:

(a) The applicability of current operational value should be considered after the IASB completes its comprehensive project on IAS 38 *Intangible Assets*;

(b) The absence of an active market restriction for the determination of current operational value within the current value model in IPSAS 31 may impact the reliability and faithfulness of intangible assets' current value; and

(c) There is uncertainty about the applicability of certain current operational value principles to intangible assets.

BC108. The IPSASB considered these views and decided to conduct further analysis on the applicability of the current operational value for assets in the scope of IPSAS 31. Therefore, at this time, proposals to amend IPSAS 31 were removed from Part 1 of this final pronouncement.

IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors

BC109. The IPSASB decided in December 2023 to amend IPSAS 3 to reflect that a change in measurement model rather than a change in measurement basis is a change in accounting policy.

Limited Scope Update of IPSAS 21, Impairment of Non-Cash-Generating Assets

BC110. The IPSASB concluded that the two branches of recoverable service amount in IPSAS 21 shall be current operational value and fair value less costs to sell, and that depreciated replacement cost, restoration cost and service unit approaches should be removed from the updated IPSAS 21. These changes were made to enhance the usefulness of the measurement information provided and to align IPSAS 21 measurement principles with IPSAS 46 and updated Chapter 7 of the Conceptual Framework.

Definition of an Accounting Estimate

BC111. The IPSASB decided that the revisions to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* included in *Definition of Accounting Estimates* (Amendments to IAS 8) issued by the IASB in February 2021 should be in the scope of Part 3 of this Final Pronouncement. However, if the amendments to IAS 8 were adopted verbatim in IPSAS 3, it would result in terminology inconsistencies within the IPSAS literature, specifically with the meaning of the term 'measurement techniques' introduced by IPSAS 46. Therefore, the IPSASB decided the amendments to IPSAS 3 would be aligned with the terminology of IPSAS 46.

Revision of IPSAS 46 as a result of Part 3 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025

BC112. The IPSASB replaced the term ‘valuation techniques’ with the term ‘measurement techniques’ for consistency with the new terminology introduced in IPSAS 46, *Measurement*.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 46.

Section A: Measurement

A.1. *What are the attributes of each measurement basis?*

	Fair Value	Current Operational Value	Cost of Fulfillment	Historical Cost
Asset Valuation	X	X		X
Liability Valuation	X		X	X
Exit Value	X		X	
Entry Value		X		X
Entity Specific		X	X	X
Market Inputs	X	X	X	
Market Participant	X			
Non-Performance Risk	X			
Risk Premium	X			
Current Market Conditions	X	X	X	
Principal or most advantageous market	X	X		
Highest and Best Use	X			
Least costly manner		X	X	

A.2 *What disclosures are required when applying current value measurements bases in IPSAS?*

The level of necessary disclosures depends on whether the current value measurement is applied on a recurring or non-recurring basis after initial recognition. Recurring current value measurements of assets are those that the specific IPSAS requires or permits in the statement of financial position at the end of each reporting period. Non-recurring current value measurements of assets are those that the specific IPSAS requires or permits in the statement of financial position in particular circumstances, such as when an entity subsequently measures inventories at current operational value because the inventories' current operational value is lower than its cost.

Disclosures for recurring and non-recurring measurements are required because new information is available at the measurement date. Disclosures providing information about the measurement techniques, inputs and assumptions applied when measuring assets and liabilities using the current value model provide useful information for decision making. These disclosure requirements were inserted in the relevant IPSAS to clearly indicate to which IPSAS the disclosures are to be applied. For example, disclosures related to the fair value hierarchy are inserted in the relevant IPSAS as follows:

			Fair Value Measurement						Only Fair Value Disclosed		
			Recurring			Non-Recurring					
IPSAS	**Relevant paragraph**	**Requirement**	**L1[4]**	**L2[5]**	**L3[6]**	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
IPSAS 12 (50C (b)) **IPSAS 16 (89C (b))** **IPSAS 27 (46C (b))** **IPSAS 30 (30C (b))** **IPSAS 31 (123C (b))** **IPSAS 34 (23C (b))** **IPSAS 38 (57C (b))**	**(a)**	Fair value measurement at the end of the reporting period	X	X	X	X	X	X			
	(a)	Reasons for the measurement				X	X	X			
	(b)	Level of the fair value hierarchy	X	X	X	X	X	X	X	X	X
	(c)	Description of the measurement technique(s) and the inputs used in the fair value measurement		X	X		X	X		X	X
	(c)	Any changes to the measurement technique(s) and the reasons therefore		X	X		X	X		X	X
	(c)	Quantitative information about the significant unobservable inputs used in the fair value measurement		X	X		X	X		X	X
	(d)	Reconciliation from the opening balances to the closing balances			X						
	(e)	Total gains or losses for the period included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those intangible assets held at the end of the reporting period			X						
	(f)	Description of the valuation processes used by the entity			X			X			
	(g)	Narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs			X						

[4] Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

[5] Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

[6] “Level 3 inputs are unobservable inputs for the asset or liability.

	(g)	For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes[7].			X						

Section B: Selection of Measurement Bases

B.1. *How does an entity determine the intended primary measurement objective of an asset?*

Where an asset is held for both its financial capacity and operational capacity purposes, an entity shall determine the primary objective of holding the asset in order to select the appropriate measurement basis. An entity should apply professional judgment and consider the principles outlined in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, (paragraphs 16–21) to determine the asset's intended primary objective. Where an entity is unable to do so using those principles, an entity shall presume that the asset is non-cash-generating given the overall objective of the public sector.

B.2. *How does an entity determine whether an asset is one unit of account or multiple units of account?*

In some cases, an asset held for both its financial and operational capacity may be an indicator of where each part of the asset should be measured separately and measured using a different measurement basis. For example, the part of the asset used for operational purposes is measured using current operational value, and the part of the asset used for financial purposes is measured using fair value. This may occur when one wing of a hospital generates a financial return by charging for health care services, while another wing of a hospital is held only for its operational capacity where health care services are delivered free of charge to citizens.

Whether the asset is a stand-alone asset, has multiple parts, or is a group of assets depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the application of one or more measurement bases identified in this Standard.

B.3. *What should an entity consider when determining the appropriate measurement model?*

The historical cost model or current value model applied to measure an entity's assets and liabilities may be determined by factors outside of the entity's control. This may occur when the policy choice is made by:

(a) A more senior level of government for all entities in a sector or jurisdiction; or

(b) An applicable regulatory framework in the jurisdiction.

When the reporting entity can make its own accounting policy choice in selecting a measurement model, the entity should select the measurement model that best meets the informational needs of the user of the financial reports.

In selecting the appropriate measurement model, the reporting entity should consider whether or not or not it wants its asset or liability to reflect the value of the transaction at the date of initial recognition, or the current value of the same transaction on the date of measurement.

[7] This disclosure requirement is limited to the amendments made to IPSAS 30, Financial Instruments: Disclosures.

B.4. *How should an entity select between current value measurement bases when estimating deemed cost at initial measurement, when an asset is acquired in a non-exchange transaction?*

The selection of measurement basis to estimate deemed cost, at initial measurement, takes into consideration the primary objective for which the entity holds the asset:

(a) When an entity holds an asset for its operational capacity, it will measure the deemed cost using current operational value. This is because current operational value faithfully represents the value of the asset to the public sector entity in its operational capacity.

(b) When an entity holds an asset for its financial capacity, it will measure the deemed cost using fair value. This is because fair value faithfully represents the value of the asset to the public sector entity in its financial capacity.

Section C: Historical Cost

C.1. *Is there a difference between the transaction price and the historical cost basis?*

Yes. Transaction price is defined as the consideration given to acquire, construct, or develop an asset, or received to assume a liability, and is used to measure an asset or liability on the date of initial recognition. The historical cost basis is derived from the transaction price adjusted for transaction costs, or deemed cost where applicable. In some cases, the historical cost basis may be equal to the transaction price, and in some cases the historical cost basis is derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability.

C.2. *Should transaction costs be subtracted from the transaction price when determining the historical cost of a liability?*

Yes. The definition of historical cost includes transaction costs, as such costs can be significant. To appropriately reflect the economics of the liability, transaction costs incurred to assume the liability are deducted from the contractual amount of the borrowing. For example, an entity borrows CU1,000,000 of which transaction costs are CU100,000. In such an instance the historical cost is 900,000 CU. This is because immediately after taking receipt of the CU1,000,000, the transaction costs of CU100,000 is repaid to the institution or counterparty, leaving the entity with CU900,000. The transaction costs of CU100,000 are included in interest expense over the term of the instrument as the carrying amount of CU900,000 is accreted to CU1,000,000 on the settlement date.

Section D: Current Operational Value

D.1. *How does an entity reflect the remaining service potential of an asset?*

Service potential is the capacity to provide services that contribute to achieving the entity's policy objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. To reflect the remaining service potential, the age, functionality, and condition of the asset need to be reflected in the measurement.

For example, a new asset is expected to have more remaining service potential than an asset that is midway through its service life. The age of the asset is correlated with the remaining service potential. Reflecting the age of the asset in the measurement, ensures the remaining service potential is estimated appropriately.

The current age, functionality, and condition of an asset is reflected in the asset measurement by considering physical, functional, and economic obsolescence.

(a) Physical Obsolescence – Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular

maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration.

(b) Functional Obsolescence – Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.

(c) Economic (or External) Obsolescence – Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

D.2. *How does an entity calculate the current operational value of an asset when there is no active market?*

If the price to acquire an identical, or a similar, asset is unavailable in an active market, current operational value will be determined based on the cost to develop or produce an identical, or a similar, asset (i.e., the cost approach).

When determining the cost to develop or produce an identical, or similar, asset, an entity determines the price of each part of the asset included in the assembly of the asset. The cost to develop or produce the asset also includes the amount that would be paid to assemble the parts, or develop the asset. Observable inputs are used in determining the price of parts and the costs to assemble, construct, or develop when it is feasible to do so. As current operational value is an entity-specific valuation, observable inputs are used when they are available, and they are relevant to the entity. For example, when measuring an aircraft, the ministry of defense may conclude it would acquire each of the parts in an active market, but use its own personnel to construct the aircraft (i.e., the least costly manner). Observable inputs are used for the fuselage, engine, etc. as they are relevant to the ministry of defense. Entity-specific inputs related to the assembly of the parts are applied as the ministry of defense will assemble the aircraft internally.

D.3. *How does an entity identify an identical, or similar, asset when new technology has been developed making the existing asset obsolete?*

An entity measures current operational value by identifying the price it would pay for the remaining service potential of an identical asset in an active market. An identical asset in an active market is used regardless of whether new technology exists that supersedes the asset under valuation. For example, if a health authority is measuring the current operational value of ventilators acquired 10 years previously, it does not consider the newest iteration of a ventilator when identifying an identical asset.

When an identical asset cannot be identified, a similar asset may be the latest iteration of the asset. However, in determining the current operational value, the value of the most recent iteration of the asset is adjusted to reflect the current age, functionality, and condition of the asset under valuation.

D.4. *Is the currently unused capacity of an asset excluded from the current operational value of an asset?*

It depends. Any part of the asset that is currently unused is evaluated to determine whether the unused part is held for an operational purpose associated with the asset. This may occur when an asset has security requirements, legal or other restrictions, or when the unused portion is necessary for future use (see decision tree below).

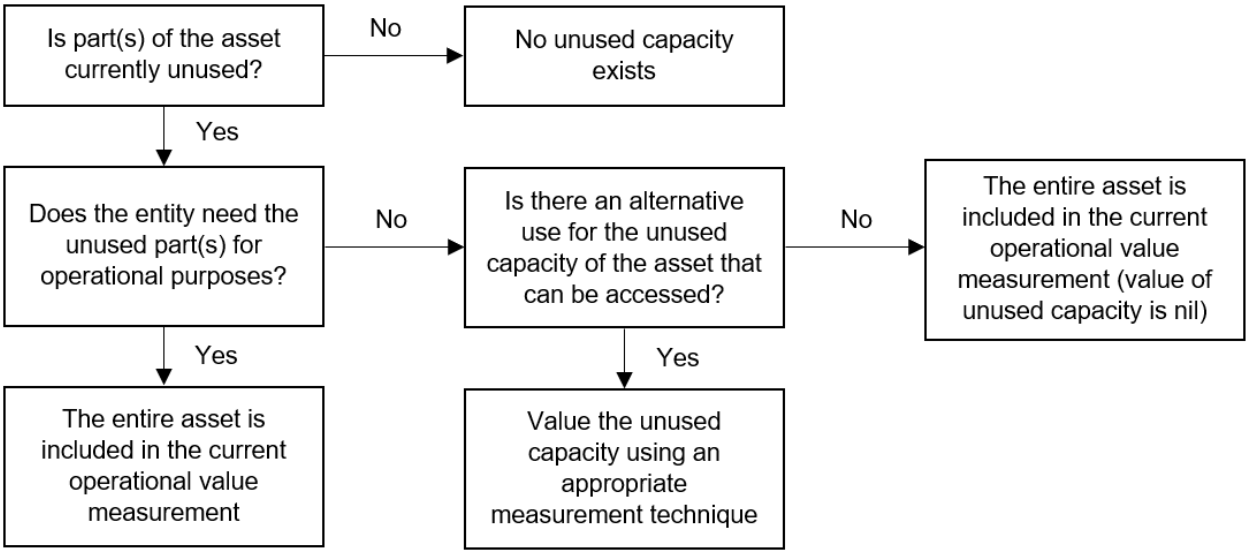
For example, a community center in a municipality prone to natural disasters has a capacity of 700 individuals even though only 200 individuals currently use the location on a regular basis. The unused portion still has operational capacity because the building has a dual purpose. It is operated as both a community center and

as a shelter for the community in the event of a natural disaster. The currently unused capacity of 500 individuals is still required for the municipality's broader operational purpose and so the whole asset is included in the measurement of its current operational value.

Another example might be where the currently unused part of the asset is expected to be required in the near future. In circumstances where a school is built in a community that is rapidly growing, it may have been constructed to take the anticipated student numbers rather than the existing student numbers. The current unused portion is, therefore, required and is included in the measurement of the school's current operational value.

Where it is determined that the unused part of the asset has no operational purpose, an entity must determine whether it has an alternative use. When an alternative use is currently available, the relevant part of the asset is valued as a separate unit of account using an appropriate measurement basis. Where the unused part has no alternative use, it is included in the current operational value, but has no value.

Illustration of the Analysis of Unused Capacity



D.5. *Are restrictions on an asset's use or disposal taken into account in the current operational value of an asset?*

Yes. Many assets are subject to restrictions on their use or disposal. Such restrictions affect how the entity operates the asset. For example, a state may restrict the operation of a municipally run building, where the building is required to be operated as a library. When the entity measures the current operational value of the building, it measures the building on the basis that its use is restricted to being operated as a library.

D.6. *What factors are considered in identifying a modern equivalent asset, and what adjustments are necessary to reflect the current operational value of the existing asset?*

A modern equivalent should reflect the same characteristics as the asset being measured. If the equivalent asset has a different service potential from the asset being measured (although necessarily the same nature), comparison techniques are used to adjust for the difference between the service potential of the entity's asset being measured and the service potential of the equivalent reference asset.

In some circumstances a modern equivalent asset may not be reflective of the asset being measured. For example, it may be challenging to calculate the cost of a modern equivalent asset when estimating the current operational value of a heritage asset, such as an historical building. This is because the value of the asset extends beyond the mere facsimile of the existing asset. Replacing the heritage asset with a modern equivalent would not represent the heritage value of the asset and therefore would not be a suitable measurement.

The cost of a modern equivalent asset will reflect the amount that would be paid if the asset were developed or produced on the measurement date. However, there are factors that may result in the cost of the modern equivalent asset being different from that of creating the actual asset:

(a) Phasing of work – An asset may have been developed in phases. The cost of a modern equivalent asset would be based on a single-phase development, and measured at the cost at the measurement date. A single-phase development may still occur over an extended period of time.

(b) Borrowing costs – If the entity does not capitalize borrowing costs in accordance with IPSAS 5, *Borrowing Costs*, the entity disregards any financing costs in measuring the modern equivalent asset.

(c) Additional costs arising from extending an existing asset – These costs are not considered as the valuation will be of a modern equivalent asset.

(d) Contract variations – Additional construction costs because of contract variations should not be considered. The modern equivalent asset being valued will have the same service capacity as the existing asset in its existing use.

(e) Planning changes – Entities should consider whether planning consent would need to be obtained to construct the modern equivalent asset and take this into account.

It may not always be practicable to separately identify adjustments for each form of obsolescence. In particular, it may be difficult to distinguish between functional obsolescence and economic (or external) obsolescence. In such cases the adjustments for obsolescence may need to be considered collectively.

D.7. *Does the least costly amount an entity would pay for the remaining service potential of an asset include concessionary elements received by an entity when determining the current operational value of an asset?*

No. Current operational value measures the amount the entity would pay for the remaining service potential of the asset in an orderly transaction. The inclusion of a concessionary element when determining current operational value will incorporate a non-exchange element into the value and would not faithfully present relevant information to users of general purpose financial statements. For example, an entity that at subsequent measurement is determining the current value of a donated asset (i.e., building), initially recognized at deemed cost, will determine the current value of the asset using current operational value or fair value, which excludes the concessionary element from its measurement.

Section E: Use of Experts

E.1. *Who should carry out a valuation of assets or liabilities?*

Responsibility for obtaining a valuation of asset(s) or liability(ies) for financial accounting and reporting purposes rests with the preparer of the relevant financial statements. However, the valuation should be carried out by an individual (or organization) with the relevant expertise to provide a valuation that faithfully represents the values of the asset(s) or liability(ies) in the financial statements in accordance with IPSAS 1, *Presentation of Financial Statements*, paragraph 27.

The nature of the asset(s) or liability(ies) will guide the preparer of the financial statements in determining what field of expertise is required. For example: the measurement of liabilities arising under a pension scheme will require the input of an actuary; the measurement of medical plant and equipment assets will involve discussions with clinicians and procurement experts; those responsible for the management of vehicle fleets will need to be involved with the valuation of those fleets; the measurement of any legal claims against the entity (liabilities) will involve discussions with the entity's legal advisors; the valuation of infrastructure assets will involve engineers and surveyors; and the valuation of land and buildings will need to be carried out by appropriately qualified surveyors.

E.2. *What type of information will the valuation specialist require in order to carry out a valuation?*

The entity and the valuation specialist will need to discuss and agree the nature and scope of the valuation assignment prior to the assignment being undertaken. The information that the valuation specialist will require depends in part on the nature of the asset(s) or liability(ies) to be valued.

The information that the entity will need to give to the valuation specialist in order that the specialist can carry out a valuation will generally include some or all of the following.

(a) The purpose of the valuation. An entity might require a valuation of its assets or liabilities for a variety of reasons, and the purpose might determine the basis of valuation that the expert will adopt. The purpose of the valuation in applying this Standard is for inclusion in the entity's financial statements. The entity should inform the valuation specialist that the financial statements will be prepared in accordance with IPSAS; a copy of the relevant IPSAS (or the relevant extract) might usefully be supplied to and discussed with the valuation specialist. Any discussion between the entity and the valuation specialist should clarify what valuation work will be carried out and any specific disclosures required to accompany the valuation in order to ensure that the precise accounting needs are addressed.

(b) The asset(s) or liability(ies) being valued. The entity and the valuation specialist need to agree what asset(s) or liability(ies) are to be valued for inclusion in the financial statements. The valuation specialist will need:

  (i) To understand the entity's legal interest in each asset or liability, and whether the whole or only part of the legal interest will be valued;

  (ii) Information about the purpose of holding the asset or liability – for financial capacity or operational capacity – as the purpose may influence the valuation specialist in the selection of a valuation method (a measurement basis or technique);

  (iii) Information about any improvements made by the entity, where the entity is a tenant of real estate, and whether these improvements would to be disregarded on renewals, or review of the lease, and whether the entity will need to reinstate the real estate to its original condition at the end of the tenancy;

  (iv) To understand the degree of control an entity has over real estate or other property[8] that is owned by more than one entity and how any rights held by the other owning entities might restrict the ability of an entity to sell its interest in the real estate or other property;

  (v) To ensure that, in the context of a portfolio of real estate, any grouping of those assets is appropriate;

(c) Assumptions. International or national standards applicable to the type of valuation may differentiate between assumptions that are consistent, or could be consistent, with the known facts at the date of the valuation, and where the assumptions used in the valuation differ from the known facts. When applicable, the entity and the valuation specialist will need to agree what assumptions should be used in the valuation, taking into account the attributes of the measurement basis; any assumptions should be included in the valuation report.

(d) The valuation date. The entity will need to inform the valuation specialist of the specific valuation date required.

[8] Other property is/are asset(s) or liability(ies) other than real estate as defined above.

(e) The reporting currency. The entity must inform the valuation specialist of the currency in which the valuation of the asset or liability will be expressed in the financial statements. This is particularly important where the asset(s) or liability(ies) being valued are spread across more than one jurisdiction or where cash flows associated with the asset(s) or liability(ies) are expressed in more than one currency. A typical example is the operation of overseas diplomatic activities.

(f) Limitations on the work of the valuation specialist. A valuation specialist will follow the appropriate international or national standards applicable to the type of valuation being undertaken. The methodology used by the valuation specialist might include any of the following:

(i) Physical inspections of the asset(s) or liability(ies) (particularly if the valuation specialist is undertaking a valuation of the specific asset(s) or liability(ies) for the first time).

(ii) Enquiries (both internal and external to the entity).

(iii) Analysis of the information provided by the entity or through enquiries, or from the results of any physical inspections.

The entity must inform the valuation specialist of any limitations or restrictions that will be imposed on the valuation assignment because these may affect the results of the valuation and will need to be recorded in the valuation report.

E.3. *What valuation bases does the valuation specialist use?*

Valuation specialists will use international or national standards appropriate for the valuation assignment. In general terms, the valuation specialist will use a market approach, income approach, or cost approach to determine the valuation, depending on the nature of the asset (or liability), the purpose, measurement objective and measurement basis, intended use and context of the particular assignment, and any jurisdictional statutory or other mandatory requirements.

E.4. *What sort of assumptions would it be reasonable for the valuation specialist to make when carrying out a valuation of real estate using the cost approach (often referred to as the depreciated replacement cost valuation method)?*

The nature of any assumptions must be consistent with the principles of the standard. Nevertheless, because the valuation is entity specific, it is important that the valuation specialist understands the entity's perspective about the real estate, and information that supports that perspective, when determining the assumptions. Assumptions are likely to take in to account the factors listed below, which the valuation specialist should determine with the entity when scoping the valuation assignment.

(a) The construction of the building is immediate.

Although buildings are constructed over time, when revalued under the cost approach the valuation specialist is required to assume the production or development of the asset is immediate as at the valuation date, rather than establish the costs over the likely period of construction, adjusted for the time value of money. The method of determining the base cost is a factor that the valuation specialist should determine with the entity.

(b) The existing location of the real estate.

Goods and services can be provided from various locations. For example, a hospital can be constructed in various locations to provide similar health care services to a group of citizens. When applying current operational value, the valuation specialist is required to assume the entity will continue to deliver goods and/or services from the same location in which the asset is currently situated.

(c) Whether or not the entity has a policy to capitalize borrowing costs.

Borrowing costs are included in the current operational value of the asset only if the entity capitalizes borrowing costs in accordance with IPSAS 5, *Borrowing Costs*. Where the entity does not capitalize borrowing costs, the valuation specialist reflects this policy choice in their assumptions and disregards any financing costs in measuring the modern equivalent asset.

(d) Expected demographic changes that affect the use of the building.

Demographic changes may be reasonably expected over the remaining life of the building. Such changes may indicate a reduction in the demand for services delivered using the building. This in turn might lead to a change in assumption about the ongoing use of the building or to a change in the specifications required for an efficient and effective replacement of the building. Conversely, demographic changes may support an increase in the expected demand for services delivered using the building, which may support a higher use for the asset than current demographics indicate. This may occur when a school is operating below capacity, but other development in the area suggests the school will operate at capacity when the development is complete. The effect of demographic changes on the replacement of the building is a factor that the valuation specialist should determine with the entity.

(e) Specialized features of the building.

A building might have a conventional, basic design that is similar to other buildings that are regularly bought and sold in the market, but on closer inspection have specialized features designed to meet the requirements of the entity. Examples of specialized features include the addition of security/safety enhancements to protect staff from physical attack in buildings used for the delivery of services directly to the public; stand-off land around embassies to protect the premises (and staff) from terrorist attack; or other adaptations to a building to enhance efficiency and effectiveness in delivering services. The requirement for specialized features associated with real estate assets is a factor that the valuation specialist should determine with the entity.

(f) The appropriateness of standard design lives and costings.

The construction industry will generally have standard design lives for different types of buildings (residential, commercial, or industrial); engineers will take a similar approach to certain types of built structures such as bridges or dams. In some cases, there may also be standard costings associated with property assets. The valuation specialist is likely to use these standard model assumptions in preparing the valuation unless there is information to suggest that those standards should be adjusted. Information to support appropriate design lives and costings are factors that the valuation specialist should determine with the entity.

E.5. *What is meant by a 'modern equivalent asset'?*

A modern equivalent asset is one that provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques.

The concept of a modern equivalent asset is applied by a valuation specialist when valuing real estate under the cost approach (the depreciated replacement cost (DRC) valuation method in some international or national valuation standards).

The depreciated replacement cost method is based on the economic theory of substitution. The underlying theory is that the potential buyer in an exchange transaction would not pay any more to acquire the asset being valued than the cost of acquiring an equivalent new one. The technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

In order to assess the price that the entity would pay for the actual asset, valuation adjustments have to be made to the gross replacement cost of the modern equivalent asset to reflect the differences between it and the modern equivalent. These differences can reflect obsolescence factors such as the physical condition, the remaining economic life, the comparative running costs and the comparative efficiency and functionality of the actual asset. Land required for the modern equivalent asset will be separately assessed.

Under the cost approach, the valuation specialist will reflect all appropriate costs in the price the entity would pay for the asset; these will include the value of the land, infrastructure, design fees, finance costs (where appropriate) and developer profit that would be incurred by a participant in creating an equivalent asset.

If the entity does not capitalize borrowing costs under IPSAS 5, *Borrowing Costs*, the valuation expert needs to disregard financing costs.

The cost of the modern equivalent asset needs to be adjusted to reflect the condition, functionality and any other factors of obsolescence of the existing asset. The valuation specialist will consider, in consultation with the entity:

(a) Physical Obsolescence – Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful lives and their rate of deterioration.

(b) Functional Obsolescence – Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in educational material could mean that chalk/white boards would be replaced by digital screens. Such advances will need to be incorporated into the assessment of functional obsolescence.

(c) Economic (or External) Obsolescence – Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. This may include, for example, capacity that is excess to the usage requirements of the existing asset.

E.6. Do I have to use a valuation expert external to my entity?

You do not have to use a specialist from another organization. Where an entity has the relevant, suitably qualified (that is, a member of an appropriate professional body) expertise available in-house, that specialist can be used to provide a valuation.

Whatever the source of the expertise, the name, qualifications and employing organization of the valuation specialist must be provided in the notes to the financial statements. This disclosure might be in the note on accounting policies or in the notes accompanying the detailed asset disclosures.

E.7. What can I expect from a valuation specialist's report?

International and national valuation standards require valuation specialists to include certain information in their reports. This will apply regardless of whether the valuation is carried out in-house or externally.

The information in a report will depend partly on what the entity and the valuation specialist agreed prior to the assignment, partly on the nature of the asset(s) or liability(ies) being valued, and partly on the standards framework used by the valuation specialist.

The information in the report will include, but will not necessarily be limited to:

(a) The name, qualifications, employing organization and any other relevant details of the valuation specialist.

(b) The name of the entity that commissioned the valuation and the name(s) of any other intended users of the report.

(c) The purpose of the valuation.

(d) The asset(s) or liability(ies) valued. For real estate assets, the report might include maps and plans depending on jurisdictional requirements, as well as the type of tenure (freehold or leasehold and, in the case of leasehold, details of the financial terms and of the responsibilities for repairs etc. under the lease).

(e) The valuation base(s) adopted.

(f) The valuation date and the date of the valuation report.

(g) A discussion of the approach the valuation specialist took in undertaking the assignment – for example, details of any physical inspections, interviews, review of documents, constraints placed on the assignment, etc.).

(h) Assumptions and special assumptions.

(i) Confirmation that the valuation has been undertaken in accordance with the relevant international or national valuation standards.

(j) The valuation amount(s) and the reasoning behind arriving at those amounts, with reference to the bases used. The report will provide separate valuation amounts for land and buildings on that land. It is likely that the valuation report will include separate valuation amounts for individual components of an asset where material in terms of the amounts or significant in terms of the asset itself. The report will include valuation amounts in both functional and reporting currencies (as appropriate).

(k) A discussion of any material uncertainties in the valuation amount(s) where this is necessary for a proper understanding of the valuation amount(s).

(l) For certain liabilities, the probability of the timing and amount of any payments to settle claims.

COMPARISON WITH IFRS 13

The fair value measurement requirements in IPSAS 46, *Measurement* are drawn primarily from IFRS 13, *Fair Value Measurement* (issued in May 2011, including amendments up to February 2023). The main differences between IPSAS 46 and IFRS 13 are as follows:

- IPSAS 46 provides guidance on historical cost, current operational value, cost of fulfilment and fair value. IFRS 13 only provides guidance on fair value.
- IPSAS 46 requires an entity to apply the measurement disclosure requirements in the relevant IPSAS. IFRS 13 includes all disclosures about fair value measurement.

COMPARISON WITH GFS

In developing IPSAS 46, *Measurement*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the measurements under IPSAS 46 and GFS will depend on the facts and circumstances of the transactions and carrying amounts at the end of the reporting period.
- On initial recognition, IPSAS 46 requires measurement at transaction price or deemed cost where appropriate. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so both may result in the same valuations.
- IPSAS 46 requires capitalization of transaction costs for all assets, while GFS only requires capitalization of cost of ownership transfer for non-financial assets.
- On subsequent measurement, IPSAS 46 allows historical cost, current operational value, cost of fulfilment and fair value measurement bases. In GFS, as a general rule, all assets and liabilities should be measured at market prices, so the same valuation can result if the market approach is used as the measurement technique.

IPSAS 47, *REVENUE*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 15 *Revenue from Contracts with Customers*, published by the International Accounting Standards Board (IASB®). Extracts from IFRS 15 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 47, *REVENUE*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 47, *Revenue* was issued in May 2023.

Since then, IPSAS 47 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (issued October 2024)

Table of Amended Paragraphs in IPSAS 47

Paragraph Affected	How Affected	Affected By
194A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
195	Amended	IPSAS 33 November 2025
203A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG1	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph AG153A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG153A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG153B	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Headings above paragraph AG202A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202B	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

Paragraph Affected	How Affected	Affected By
Heading above paragraph AG202C	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202C	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph AG202D	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202D	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202E	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Headings above paragraph AG202F	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202F	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph AG202G	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202G	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202H	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202I	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
AG202J	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph IE1A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

Paragraph Affected	How Affected	Affected By
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IE1B	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1C	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1D	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph IE1E	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1E	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1F	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1G	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph IE1H	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1H	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE1I	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
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Headings above paragraph IE296A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE296A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

Paragraph Affected	How Affected	Affected By
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IE308	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

IPSAS 47, *REVENUE*

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International Public Sector Accounting Standard 47, *Revenue*, is set out in paragraphs 1–204. All the paragraphs have equal authority. IPSAS 47 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions.

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity to consider the terms of the transaction, and all relevant facts and circumstances, to determine the type of revenue transaction; and

   (b) Sets out the accounting requirements to account for the revenue transaction.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:**

   (a) **Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of IPSAS 42, *Social Benefits* (the insurance approach);**

   (b) **A public sector combination within the scope of IPSAS 40, *Public Sector Combinations*;**

   (c) **The accounting for contributions from owners;**

   (d) **Lease contracts within the scope of IPSAS 43, *Leases*;**

   (e) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts[1];**

   (f) **Financial instruments and other contractual rights or obligations within the scope of IPSAS 41, *Financial Instruments*;**

   (g) **Rights or obligations arising from binding arrangements within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 32, *Service Concession Arrangements: Grantor*, IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, IPSAS 39, *Employee Benefits*, and IPSAS 40;**

   (h) **Non-monetary exchanges between entities in the same line of business to facilitate sales to resource providers or potential resource providers. For example, this Standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis;**

   (i) **Gains from the sale of non-financial assets that are not an output of an entity's activities and are within the scope of IPSAS 16, *Investment Property*, IPSAS 45, *Property, Plant, and Equipment*[2], or IPSAS 31, *Intangible Assets* (see paragraph AG5);**

   (j) **Changes in the value of current and non-current assets arising from subsequent measurement;**

   (k) **Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*); and**

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1 There is no equivalent IPSAS and no standard is being developed in the IPSAS literature on insurance contracts.

2 If this Standard is applied prior to IPSAS 45, then references to IPSAS 45 in this Standard should refer to IPSAS 17, *Property, Plant, and Equipment*.

(l) **The extraction of mineral resources.**

Definitions

4. **The following terms are used in this Standard with the meanings specified:**

For the purposes of this Standard, a binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. (Paragraphs AG10–AG31 provide additional guidance.)

A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

A binding arrangement liability is an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.

From the perspective of a resource recipient, a capital transfer is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG140 provides additional guidance.)

A compliance obligation is an entity's promise in a binding arrangement to either use resources[3] internally for distinct goods or services[4] or transfer distinct goods or services to a purchaser or third-party beneficiary.

A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.

Other compulsory contributions and levies is cash or another asset, paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.

A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. (Paragraph AG27 provides additional guidance.)

A resource provider is the party that provides a resource to the entity. (Paragraphs AG26–AG31 provides additional guidance.)

The stand-alone value (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

[3] In this Standard, the term resource includes goods, services, and other assets, which may encompass cash or non-current assets.

[4] In this Standard, references to goods and services, or goods or services are to be read as incorporating references to cash and non-current assets.

The taxable event is the event that the government, legislature, or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.

A third-party beneficiary is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources. (Paragraph AG29 provides additional guidance.)

For the purposes of this Standard, the transaction consideration is the amount of resources to which an entity expects to be entitled.

A transfer is a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

Revenue

5. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties are not considered revenue of the agent, as these amounts will not give rise to an increase in net assets/equity of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

6. Where an entity incurs some cost in relation to revenue arising from a revenue transaction, the revenue is the gross inflow of future economic benefits or service potential, and any transfer of resources is recognized as a cost of the transaction. For example, if an entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (resource provider), those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are recognized in accordance with IPSAS 45.

Taxes

7. Taxes, which include compulsory contributions and levies, are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 4 as economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory transfers to the government or public sector entities, such as donations and the payment of fees, are not taxes, although they may be the result of transactions without a binding arrangement. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

8. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer.

Identify the Revenue Transaction

9. Public sector revenues may arise from transactions without binding arrangements or with binding arrangements. The majority of revenue of governments and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.

10. **At inception, an entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement**.

Identify whether a Binding Arrangement Exists

11. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of their obligations.**

12. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.

13. A binding arrangement includes both rights and obligations that are enforceable for two or more of the parties in the arrangement. Each party's enforceable rights and obligations within the binding arrangement are interdependent and inseparable.

14. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's customary practices. The practices and processes for establishing binding arrangements vary across legal jurisdictions, sectors and entities. In addition, they may vary within an entity (for example, they may depend on the class of the resource provider or the nature of the entity's promise in the binding arrangement).

15. An entity will apply the recognition and measurement criteria in this Standard as follows:

    (a) Revenue from transactions without binding arrangements are accounted for by applying paragraphs 18–55, with guidance specific to taxes in paragraphs 36–55; and

    (b) Revenue from transactions with binding arrangements are accounted for by applying paragraphs 56–147.

16. Paragraphs AG10–AG31 provide additional guidance on enforceability and binding arrangements.

Revenue from Transactions without Binding Arrangements

Recognition

17. **An entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any entity shall determine if:**

    (a) **Any of its rights in its revenue transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 18–25; and**

    (b) **Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 26–27.**

Analysis of the Initial Inflow of Resources

18. An entity may receive an initial inflow of resources from a revenue transaction without a binding arrangement. The entity recognizes this inflow of resources as an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably.[5] Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in achieving its service delivery or other objectives. A past event that gives the entity control of a resource may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

19. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph AG143, entities may, but are not required to, recognize services in-kind.

20. Each type of inflow of resources is analyzed and accounted for separately. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry with it obligations that the entity may recognize as a liability until the obligations are satisfied (in accordance with paragraph 26).

Right to an Inflow of Resources

21. When an entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services, or other assets which may be a resource that meets the definition of an asset and is to be recognized as an asset. The entity bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the resource provider's ability and intention to provide the resources.

22. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by an entity.[6]

23. In circumstances where an agreement is required before resources can be transferred, an entity will not identify the resources as controlled until such time as the entity's right in the agreement is enforceable, because the entity cannot exclude or regulate the access of the resource provider to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognize an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the resource provider's access to those resources.

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[5] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

[6] For example, if a public school were destroyed by a fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement.

Contingent Assets

24. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see IPSAS 19).

Subsequent Consideration of Asset Recognition Criteria

25. An entity shall continue to assess the revenue transaction, and any inflow of resources received or to be received, to determine whether the criteria for asset recognition in paragraph 21 are subsequently met.

Existence and Recognition of a Liability

26. An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.

27. For a liability to exist, it is necessary that the entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s).

28. An obligation that meets the definition of a liability shall be recognized as a liability when, and only when, the amount of the obligation can be measured reliably.

Recognition of Revenue Transactions without Binding Arrangements

29. **When an entity recognizes an inflow or right to an inflow of resources as an asset for a revenue transaction without a binding arrangement in accordance with paragraphs 18–25, it recognizes revenue based on the nature of the requirements in its revenue transaction. An entity shall recognize revenue from a transaction without a binding arrangement:**

    (a) **When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or**

    (b) **Immediately if the entity does not have an enforceable obligation associated with the inflow of resources.**

Measurement

Measurement of Assets from an Inflow of Resources

30. **An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant IPSAS.**

31. After initial recognition, an entity shall subsequently measure:

    (a) A receivable asset:

        (i) Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or

        (ii) Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.

    (b) All other assets as prescribed by the applicable IPSAS.

Measurement of Liabilities

32. **The amount recognized as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized.**

33. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability shall be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

Measurement of Revenue Transactions without Binding Arrangements

34. **Revenue from transactions without a binding arrangement shall be measured at the amount of the increase in net assets (e.g., the consideration received or receivable) recognized by the entity.**

35. When, as a result of a revenue transaction without a binding arrangement, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 30, subject to any liability recognized in accordance with paragraphs 26–28.

Taxes

36. **An entity shall recognize an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met.**

37. Tax laws and/or regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and/or regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and/or regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

38. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of past events (taxable events) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when they are presently controlled by the entity as a result of past events and their value can be measured reliably. The entity should consider evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

39. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income taxes for the state government and

several city governments, it does not recognize revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.

40. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

41. Taxes are a transaction without a binding arrangement because the taxpayer transfers resources to the government, and the government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer may benefit from a range of social policies established by the government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes.

Triggering Event for Taxes and Other Compulsory Contributions and Levies

42. Similar types of taxes are levied in many jurisdictions. The entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied.

43. Similar types of other compulsory contributions and levies occur in many jurisdictions. The entity analyzes the law and/or regulation relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

    (a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);

    (b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and

    (c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales).

Advance Receipts of Taxes and Other Compulsory Contributions and Levies

44. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 36, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the triggering event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes or other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied, notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the triggering event for other compulsory contributions and levies occurs. When the triggering event for other compulsory contributions and levies occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

45. Assets arising from taxation transactions are measured in accordance with paragraph 30. An entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration.

Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts). The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

46. Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:

(a) The tax law and/or regulation allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

(b) Taxpayers failing to file returns on a timely basis;

(c) Valuing non-monetary assets for tax assessment purposes;

(d) Complexities in tax law and/or regulation requiring extended periods for assessing taxes due from certain taxpayers;

(e) The potential that the financial and political costs of rigorously enforcing the tax laws and/or regulations (or laws and/or regulations relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;

(f) The tax law and/or regulation permitting taxpayers to defer payment of some taxes; and

(g) A variety of circumstances particular to individual taxes and jurisdictions.

47. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

48. In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event has occurred. This may occur if a tax base is volatile and a reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in the recognition of an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a deceased individual's large estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently, the recognition criteria may not be satisfied until payment is received or receivable.

Measurement of Taxes with Collection Uncertainty

49. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

50. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved,

an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(c) The entity's experience (or other evidence) with similar types of arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar arrangements in similar circumstances.

(e) The transaction has a large number and broad range of possible consideration amounts.

Expenses Paid Through the Tax System and Tax Expenditures

51. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**

52. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, by making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

53. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

54. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.

55. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to entities irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Revenue from Transactions with Binding Arrangements

Recognition

Accounting for the Binding Arrangement

56. **An entity shall account for a binding arrangement using the binding arrangement accounting model if all of the following criteria are met:**

    (a) **The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;**

    (b) **The entity can identify each party's rights under the binding arrangement;**

    (c) **The entity can identify the payment terms for the satisfaction of each identified compliance obligation;**

    (d) **The binding arrangement has economic substance (i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement) (paragraphs AG32–AG34 provide additional guidance for binding arrangements that require a transfer of distinct goods or services to a purchaser or third-party beneficiary); and**

    (e) **It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement (paragraphs AG35–AG39 provide additional guidance). In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the resource provider's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the transaction consideration stated in the binding arrangement if the consideration is variable because the entity may offer the resource provider a price concession (see paragraph 115).**

57. If a binding arrangement meets the criteria in paragraph 56 at the inception of the binding arrangement, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a resource provider's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled for the satisfaction of any remaining compliance obligations in the binding arrangement.

58. When a binding arrangement does not meet all of the criteria in paragraph 56, the entity shall recognize any consideration received as revenue only when either of the following events has occurred:

    (a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or

    (b) The binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.

    An entity shall continue to assess the binding arrangement to determine whether the criteria in paragraph 56 are subsequently met.

59. For the purpose of applying this Standard, an arrangement is not a binding arrangement if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties).

60. A binding arrangement is wholly unsatisfied if both of the following criteria are met:

(a) The entity has not yet started satisfying any of its compliance obligations in the binding arrangement; and

(b) The resource provider has not yet paid, and is not yet obligated to pay, any consideration to the entity for the entity satisfying any of its compliance obligations in the binding arrangement.

61. If an entity has determined that its revenue arises from a transaction with a binding arrangement that is to be accounted for using the binding arrangement accounting model, the entity shall also consider whether it should be combined with other binding arrangements, and whether there are any modifications to its binding arrangement.

Combination of Binding Arrangements

62. An entity shall combine two or more binding arrangements entered into at or near the same time with the same resource provider (or related parties of the resource provider) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

(a) The binding arrangements are negotiated as a package with a single objective;

(b) The amount of consideration to be paid in one binding arrangement depends on the consideration or performance of the other binding arrangement; or

(c) The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation in accordance with paragraphs 68–77.

Modifications to a Binding Arrangement

63. A modification to a binding arrangement is a change in the scope or consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the existing binding arrangement until the modification to a binding arrangement is approved.

64. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or consideration (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration, an entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 113–117 on estimating variable consideration and paragraphs 119–121 on constraining estimates of variable consideration.

65. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:

(a) The scope of the binding arrangement increases because of the addition of promises that are distinct (in accordance with paragraphs 73–77); and

(b) The consideration of the binding arrangement increases by an amount of consideration that reflects the entity's stand-alone values of the additional promises and any appropriate adjustments to that value to reflect the circumstances of the particular binding arrangement. For example, an entity may adjust the stand-alone value of an additional good or service for a discount that the resource provider receives, because it is not necessary for the entity to incur the related costs that it would incur when providing a similar good or service to a new resource provider.

66. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall account for the promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promises) in whichever of the following ways is applicable:

(a) An entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining promises are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation identified in accordance with paragraph (b)) is the sum of:

(i) The consideration promised by the resource provider (including amounts already received from the resource provider) that was included in the estimate of the transaction consideration and that had not been recognized as revenue; and

(ii) The consideration promised as part of the modification to a binding arrangement.

(b) An entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single compliance obligation that is partially satisfied at the date of the modification to a binding arrangement. The effect that the modification to a binding arrangement has on the transaction consideration, and on the entity's measure of progress towards complete satisfaction of the compliance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).

(c) If the remaining promises are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) compliance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.

Duration of a Binding Arrangement

67. Some binding arrangements may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. An entity shall apply this Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

Identifying Compliance Obligations in a Binding Arrangement

68. **At the inception of the binding arrangement, an entity shall assess the goods or services promised in a binding arrangement with a resource provider and shall identify as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties (i.e., the purchaser (the resource provider) or third-party beneficiary), either:**

(a) **A good or service (or a bundle of goods or services) that is distinct; or**

(b) **A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use internally or transfer to the purchaser or third-party beneficiary (see paragraph 70).**

Paragraphs AG43–AG56 provide additional guidance on identifying compliance obligations.

69. **A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid.**

70. A series of distinct goods or services has the same pattern of use internally or transfer to the purchaser or third-party beneficiary if both of the following criteria are met:

(a) Each distinct good or service in the series would meet the criteria in paragraph 92 or 95 to be a compliance obligation satisfied over time; and

(b) In accordance with paragraphs 98–99, the same method would be used to measure the entity's progress towards complete satisfaction of the compliance obligation.

Promises to Use Resources

71. A binding arrangement generally explicitly states the goods or services that an entity promises to either obtain for use internally or transfer to a purchaser or third-party beneficiary. However, the compliance obligations identified in a binding arrangement may not be limited to the goods or services that are explicitly stated in that binding arrangement. This is because a binding arrangement may also include promises that are implied by an entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the resource provider that the entity will perform, and are of sufficient specificity for them to be able to hold the entity accountable.

72. Compliance obligations do not include activities that an entity must undertake to satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, an entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not use a resource internally for a service or transfer a service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation.

Identifying Distinct Promises to Use Resources

73. A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied. A good or service that is promised in a binding arrangement is distinct if both of the following criteria are met:

(a) The party receiving the good or service can generate economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to that party (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to use resource internally for the good or service or transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise is distinct within the context of the binding arrangement).

See paragraphs AG53–AG56 for specific guidance on identifying distinct promises to use resources for another party.

74. An entity determines if the party receiving the good or service is itself, resource provider (purchaser), or a specified third-party beneficiary by considering the nature of its compliance obligation.

(a) In a compliance obligation where an entity promises to use resources internally for a distinct good or service, the entity itself is the recipient of the goods or services.

(b) In a compliance obligation where an entity promises to use resources to transfer a distinct good or service to a purchaser or third-party beneficiary, the recipient of the goods or services is either the purchaser, or the third-party beneficiary.

See paragraph AG27 for additional guidance.

75. A party can generate the economic benefits or service potential from the good or service in accordance with paragraph (a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a party may be able to generate economic benefits or service potential from the good or service on its own. For other goods or services, a party may be able to generate economic benefits or service potential from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the party has already obtained from the entity (including goods or services that the entity will use internally or that will be transferred to the purchaser or third-party beneficiary, under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the party can generate economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly internally uses or provides a good or service separately would indicate that a party can generate economic benefits or service potential from the good or service on its own or with other readily available resources.

76. In assessing whether an entity's promises to use resources internally for goods or services or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph (b), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises are not separately identifiable include, but are not limited to, the following:

(a) The entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the resource provider has entered into binding arrangements. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the resource provider. A combined output or outputs might include more than one phase, element or unit.

(b) One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.

(c) The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to satisfy its promise by using each of the goods or services internally, or transferring each of the goods or services, independently.

77. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all of the goods or services promised in a binding arrangement as a single compliance obligation.

Initial Recognition of Revenue Transactions with a Binding Arrangement

78. When a binding arrangement is wholly unsatisfied in accordance with paragraph 60, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

79. Where a binding arrangement becomes onerous, an entity shall account for the expected deficit in accordance with IPSAS 19. Paragraphs AG57–AG58 provide additional guidance on unsatisfied binding arrangements.

Analysis of the Initial Inflow of Resources

80. An entity may receive or have the right to an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. An entity should apply paragraphs 18–25, and recognize an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of, and the recognition criteria for, an asset are met.

Existence and Recognition of a Liability

81. Public sector entities typically receive resources from governments or other entities. When an entity recognizes an asset for an inflow of resources, it shall consider if there are compliance obligations related to the inflow which result in the recognition of a liability.

82. A compliance obligation gives rise to a liability when:

    (a) The entity has received resources associated with its unsatisfied or partially unsatisfied compliance obligation in a binding arrangement; and

    (b) The resource provider can enforce the binding arrangement, if the entity does not satisfy the compliance obligation(s) associated with the consideration received, by requiring the entity to transfer resources to another party in compliance with the terms of the binding arrangement.

    See additional guidance in paragraphs AG59–AG62.

83. In accordance with paragraph 27, a liability exists if the entity cannot avoid a transfer of resources as a consequence of past events, and the transfer of resources is probable. An entity should consider the facts and circumstances relating to the binding arrangement to determine if the other party or parties (which is typically the resource provider) are able to enforce their rights and impose a consequence that requires an incremental transfer of resources as a result of the entity's non-compliance (i.e., not satisfying its compliance obligation(s)).

84. As an administrative convenience, a transfer of resources as a consequence of the entity not satisfying its compliance obligations may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The entity will still recognize the gross amounts in its financial statements: that is, the entity will recognize a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

85. If an entity receives resources prior to both the parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

86. A compliance obligation that meets the definition of a liability shall be recognized as a liability when, and only when the amount of the obligation can be measured reliably. The entity shall continue to recognize the liability until one of the events in paragraph 58 is subsequently met.

Recognition of Revenue Transactions with a Binding Arrangement

87. **When an entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for, an asset in accordance with paragraphs 18–25, the entity shall recognize:**

    (a) **Revenue for any satisfied compliance obligations in respect of the same inflow; and**

    (b) **A liability for any unsatisfied compliance obligations in respect of the same inflow.**

88. **The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognize revenue from a transaction with a binding arrangement when (or as) the entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement. The entity shall reduce the carrying amount of any liability that was recognized in accordance with paragraphs 81–86 by an equal amount. Paragraphs AG63–AG95 provide additional guidance on the satisfaction of compliance obligations.**

89. **An entity satisfies a compliance obligation by using resources internally for a promised good or service (i.e., an asset), or to transfer a promised good or service to a purchaser or third-party beneficiary. An asset is used internally or transferred when (or as) the entity receiving the asset obtains control of that asset.**

90. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, a resource (see paragraph 18). The economic benefits or service potential embodied in a resource are the potential cash flows (inflows or savings in outflows), or the capability to provide services that contribute to achieving the entity's objectives, that can be obtained directly or indirectly in many ways, such as by:

    (a) Using the resource to provide internal training;

    (b) Using the resource to produce goods or provide services (including public services);

    (c) Using the resource to enhance the value of other assets;

    (d) Using the resource to settle liabilities or reduce expenses;

    (e) Selling or exchanging the resource;

    (f) Pledging the resource to secure a loan; and

    (g) Holding the resource.

91. For each compliance obligation identified in accordance with paragraphs 68–77, an entity shall determine at the inception of the binding arrangement whether it satisfies the compliance obligation over time (in accordance with paragraphs 92–93 or paragraphs 95–96) or satisfies the compliance obligation at a point in time (in accordance with paragraph 94 or paragraph 97). If the entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Compliance Obligations to Use Resources for Goods or Services Internally

Satisfied Over Time

92. An entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:

(a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

(c) The entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

93. An entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to consideration for any compliance obligation completed to date in accordance with paragraph (c). The right to consideration for any compliance obligation completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for any compliance obligation completed to date if the binding arrangement is terminated by the resource provider or another party with enforceable rights and obligations in the binding arrangement for reasons other than the entity's failure to perform as promised. Paragraphs AG67–AG71 provide guidance for assessing the existence and enforceability of a right to consideration and whether an entity's right to consideration would entitle the entity to be paid for any compliance obligation completed to date.

Satisfied at a Point in Time

94. If a compliance obligation is not satisfied over time in accordance with paragraphs 92–93, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which the entity obtains control of a promised asset and satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90.

Compliance Obligations to Transfer Goods or Services to Another Party (Purchaser or Third-Party Beneficiary)

Satisfied Over Time

95. An entity transfers control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:

(a) The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraph 96) and the entity has an enforceable right to consideration for performance completed to date (see paragraph 93).

96. An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the compliance obligation. Paragraphs AG76–AG78 provide guidance for assessing whether an asset has an alternative use to an entity.

Satisfied at a Point in Time

97. If a compliance obligation is not satisfied over time in accordance with paragraphs 95–96, an entity satisfies the compliance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary obtains control of a promised asset and the entity satisfies a compliance obligation, the entity shall consider the requirements for control in paragraphs 89–90 (and AG183–AG185 if the entity has a repurchase agreement). In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to consideration for the asset — if a resource provider is presently obligated to pay for an asset, then that may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.

(b) The purchaser or third-party beneficiary has legal title to the asset — legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If an entity retains legal title solely as protection against the resource provider's failure to pay, those rights of the entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset — the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a resource provider or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the resource provider controls. Paragraphs AG183–AG196, AG197–AG198, and AG199–AG202 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset — the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate compliance obligation in addition to the compliance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a resource provider but not yet satisfied an additional compliance obligation to provide maintenance services related to the transferred asset.

(e) The resource provider has accepted the asset — the resource provider's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. To evaluate the effect of an acceptance clause in a binding arrangement on when control of an asset is transferred, an entity shall consider the guidance in paragraphs AG82–AG85.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

98. For each compliance obligation satisfied over time in accordance with paragraphs 92–93 (for compliance obligations to use goods or services internally) or paragraphs 95–96 (for compliance obligations to transfer

goods or services to another party), an entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that compliance obligation. The objective when measuring progress is to depict an entity's performance to satisfy its compliance obligation.

99. An entity shall apply a single method of measuring progress for each compliance obligation satisfied over time and the entity shall apply that method consistently to similar compliance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

Methods for Measuring Progress

100. Appropriate methods of measuring progress include output methods and input methods. Paragraphs AG86–AG95 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a compliance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively.

101. When applying a method for measuring progress for a specific compliance obligation, an entity shall exclude from the measure of progress any goods or services not directly related to that compliance obligation:

(a) For a compliance obligation where the entity promises to use resources internally for a distinct good or service, the entity shall exclude from the measure of progress any goods or services for which the entity does not retain control. Conversely, an entity shall include in the measure of progress any goods or services for which the entity retains control when satisfying that compliance obligation; and

(b) For a compliance obligation where the entity promises to use resources to transfer a distinct good or service to another party, the entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to another party (i.e., a purchaser or third-party beneficiary). Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to another party (i.e., a purchaser or third-party beneficiary) when satisfying that compliance obligation.

102. As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.

Reasonable Measures of Progress

103. An entity shall recognize revenue for a compliance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the compliance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

104. In some circumstances (for example, in the early stages of a binding arrangement), an entity may not be able to reasonably measure the outcome of a compliance obligation, but the entity expects to recover the costs incurred in satisfying the compliance obligation. In those circumstances, the entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the compliance obligation.

Subsequent Consideration of Asset Recognition Criteria

105. When an inflow of resources from a binding arrangement within the scope of this Standard does not meet the criteria in paragraph 18, and an entity subsequently receives an inflow of resources from the resource

provider, the entity shall recognize the inflow received as revenue only when either of the following events has occurred:

(a) The entity has no unsatisfied compliance obligation; or

(b) The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Measurement

Measurement of Assets from an Inflow of Resources

106. **An asset in a revenue transaction with a binding arrangement shall initially be measured by the entity at its transaction consideration as at the date in which the criteria for asset recognition are satisfied (see paragraphs 109–132). An entity shall subsequently measure the asset in accordance with paragraph 31.**

Measurement of Liabilities

107. The amount recognized as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources. An entity shall apply paragraph 33 in determining its best estimate of the liability.

Measurement of Revenue Transactions with Binding Arrangements

108. **When (or as) a compliance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 119–121) that is allocated to that compliance obligation.**

Determining the Transaction Consideration

109. An entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the amount of resources to which an entity expects to be entitled in the binding arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both.

110. Credit risk is not considered when determining the amount the entity expects to be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in IPSAS 41.

111. The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:

(a) Variable consideration (see paragraphs 113–117 and 122);

(b) Constraining estimates of variable consideration (see paragraphs 119–121);

(c) The existence of a significant financing component in the binding arrangement (see paragraphs 123–128);

(d) Non-cash consideration (see paragraphs 129–132); and

(e) Consideration payable to a resource provider (see paragraphs AG104–AG106).

112. For the purpose of determining the transaction consideration, an entity shall assume that the consideration will be received in accordance with the terms of the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration

113. If the consideration in the binding arrangement includes a variable amount, an entity shall estimate the amount of the consideration to which the entity expects to collect from the resource provider.

114. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if a fixed amount is promised as a performance bonus on achievement of a milestone specified in the binding arrangement.

115. The variability relating to the consideration may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the consideration is variable if either of the following circumstances exists:

(a) The resource provider has a valid expectation arising from an entity's customary practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the amount stated in the binding arrangement or applicable legislation. That is, it is expected that the entity will offer or accept a reduced amount due to a concession. Depending on the jurisdiction, sector or resource provider, this offer may be referred to as a discount, rebate, refund or credit; or

(b) Other facts and circumstances indicate that the entity's intention, when entering into the arrangement with the resource provider, is to offer a price concession to the resource provider.

Paragraph AG37 provides additional guidance on implicit price concessions.

116. An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it expects to be entitled to:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics; or

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either completes construction of infrastructure on schedule or not).

117. An entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable consideration to which the entity expects to be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses to estimate the amount receivable. In cases where the binding arrangement requires the entity to transfer distinct goods or services to another party, the information would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund Liabilities

118. An entity may enter into a binding arrangement which includes a right of return. In these cases, the entity shall recognize a refund liability if the entity receives consideration from a resource provider and expects to refund some or all of that consideration to the resource provider relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e., amounts not included in the transaction consideration). The refund liability (and corresponding change in the transaction consideration and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs AG96–AG103.

Constraining Estimates of Variable Consideration

119. An entity shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 116 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

120. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the consideration (when it is non-cash) or the promised good or service.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(c) The entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.

(e) The binding arrangement has a large number and broad range of possible consideration amounts.

121. An entity shall apply paragraphs AG180–AG182 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

Reassessment of Variable Consideration

122. At the end of each reporting period, an entity shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable inflow is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction consideration in accordance with paragraphs 144–147.

The Existence of a Significant Financing Component in the Binding Arrangement

123. In determining the transaction consideration, an entity shall adjust the amount of consideration for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement

(either explicitly or implicitly) provides the resource provider or the entity with a significant benefit of financing the binding arrangement. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the terms agreed to by the parties to the binding arrangement or applicable laws and/or regulations.

124. The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize revenue at an amount that reflects the consideration that a resource provider would have transferred if the resource provider had transferred cash (i.e., the cash price) for those goods or services promised in the compliance obligation when (or as) the entity uses them (internally) or transfers them (to the purchaser or third-party beneficiary). An entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

(a) The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services in the compliance obligation; and

(b) The combined effect of both of the following:

(i) The expected length of time between when the entity satisfies the compliance obligation (if any) and when the resource provider transfers the consideration; and

(ii) The prevailing interest rates in the relevant market.

125. Notwithstanding the assessment in paragraph 124, a binding arrangement with a resource provider would not have a significant financing component if any of the following factors exist:

(a) The resource provider made the transfer in advance and the timing of when the compliance obligation is satisfied is at the discretion of the resource provider.

(b) A substantial amount of the inflow promised by the resource provider is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the resource provider or the entity.

(c) The difference between the consideration and the cash price of the transfer (as described in paragraph 124) arises for reasons other than the provision of finance to either the resource provider or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the terms might provide the entity or the resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

126. As a practical expedient, an entity need not adjust the consideration for the effects of a significant financing component if the entity expects, at the inception of the binding arrangement, that the period between when the entity satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.

127. To meet the objective in paragraph 124 when adjusting the consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its resource provider at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the resource provider or the entity, including assets transferred in the binding arrangement. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the consideration to the price that the resource provider would transfer when (or as) the compliance obligation is satisfied (where applicable). After the inception of the binding arrangement, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the resource provider’s credit risk).

128. An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement.

Non-Cash Consideration

129. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant IPSAS, as at the time when the criteria for asset recognition are satisfied.

130. If an entity cannot reasonably estimate the current value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone value of the goods or services that are required to be used internally or transferred to the purchaser or third-party beneficiary (or class of resource provider) for the consideration.

131. The current value of the non-cash consideration may vary because of the form of the consideration. If the current value of the non-cash consideration promised by a resource provider varies for reasons other than only the form of the consideration, an entity shall apply the requirements in paragraphs 119–121.

132. If a resource provider contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's satisfaction of the binding arrangement, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the resource provider.

Allocating the Transaction Consideration to Compliance Obligations

133. **The objective when allocating the transaction consideration is for an entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations.**

134. To meet the allocation objective, an entity shall allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis in accordance with paragraphs 136–140, except as specified in paragraphs AG107–AG109 (for allocating discounts) and paragraphs 141–143 (for allocating consideration that includes variable amounts). The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total compliance obligations satisfied.

135. Paragraphs 136–143 do not apply if a binding arrangement has only one compliance obligation. However, paragraphs 141–143 may apply if an entity promises to use or transfer a series of distinct goods or services identified as a single compliance obligation in accordance with paragraph (b) and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Values

136. To allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis, an entity shall determine the stand-alone value at the inception of the binding arrangement of the distinct good or service underlying each compliance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone values.

137. The stand-alone value is the price of a good or service that is required to be used internally or provided separately to a purchaser or third-party. The best evidence of a stand-alone value is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to

similar resource providers. In a binding arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone value of that good or service.

138. If a stand-alone value is not directly observable, an entity shall estimate the stand-alone value at an amount that would result in the allocation of the transaction consideration meeting the allocation objective in paragraph 133. When estimating a stand-alone value, an entity shall consider all information (including entity-specific factors, information about the resource provider or class of resource provider, and market conditions where relevant) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

139. Suitable methods for estimating the stand-alone value of a good or service include, but are not limited to, the following:

(a) Adjusted market assessment approach—an entity could evaluate the market in which it uses or provides goods or services and estimate the price that other entities in that market would be willing to pay for those goods or services, or similar goods or services, and adjusting those prices as necessary to reflect the entity's costs and margins.

(b) Expected cost approach—an entity could forecast its expected costs of satisfying a compliance obligation and, if applicable, add an appropriate margin for that good or service.

(c) Residual approach—an entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services to be used or transferred in the binding arrangement. However, an entity may use a residual approach to estimate, in accordance with paragraph 138, the stand-alone value of a good or service only if one of the following criteria is met:

(i) The entity uses or provides the same good or service to different parties (at or near the same time) for a broad range of amounts (i.e., the price is highly variable because a representative stand-alone value is not discernible from past transactions or other observable evidence); or

(ii) The entity has not yet determined a price for that good or service and the good or service has not previously been provided on a stand-alone basis (i.e., the price is uncertain).

140. A combination of methods may need to be used to estimate the stand-alone values of the goods or services to be used or transferred in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone values. For example, an entity may use a residual approach to estimate the aggregate stand-alone value for those goods or services with highly variable or uncertain stand-alone values and then use another method to estimate the stand-alone values of the individual goods or services relative to that estimated aggregate stand-alone value determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone value of each good or service in the binding arrangement, the entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone values would be consistent with the allocation objective in paragraph 133 and the requirements for estimating stand-alone values in paragraph 138.

Allocation of Variable Consideration

141. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

(a) One or more, but not all, compliance obligations in the binding arrangement (for example, a bonus may be contingent on an entity using or transferring a promised good or service within a specified period of time); or

(b) One or more, but not all, distinct goods or services in a series of distinct goods or services that forms part of a single compliance obligation in accordance with paragraph (b) (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

142. An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation or to a distinct good or service that forms part of a single compliance obligation in accordance with paragraph (b) if both of the following criteria are met:

(a) The terms of a variable payment relate specifically to the entity's efforts to satisfy the compliance obligation or use or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or using or transferring the distinct good or service); and

(b) Allocating the variable amount of consideration entirely to the compliance obligation or the distinct good or service is consistent with the allocation objective in paragraph 133 when considering all of the compliance obligations and payment terms in the binding arrangement.

143. The allocation requirements in paragraphs 133–140 shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in paragraph 142.

Changes in the Transaction Consideration

144. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled for satisfying its compliance obligation.

145. An entity shall allocate to the compliance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, an entity shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding arrangement. Amounts allocated to a satisfied compliance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction consideration changes.

146. An entity shall allocate a change in the transaction consideration entirely to one or more, but not all, compliance obligations or distinct goods or services in a series that forms part of a single compliance obligation in accordance with paragraph (b) only if the criteria in paragraph 142 on allocating variable consideration are met.

147. An entity shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs 63–66. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, an entity shall apply paragraphs 144–146 to allocate the change in the transaction consideration in whichever of the following ways is applicable:

(a) An entity shall allocate the change in the transaction consideration to the compliance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph (a).

(b) In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 65, an entity shall allocate the change in the transaction consideration to the compliance obligations in the modified binding arrangement (i.e., the compliance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Other Assets from Revenue Transactions with Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

148. **An entity shall recognize as an asset the incremental costs of obtaining a binding arrangement if the entity expects to recover those costs.**

149. The incremental costs of obtaining a binding arrangement are those costs that an entity incurs to obtain a binding arrangement that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).

150. Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the resource provider regardless of whether the binding arrangement is obtained.

151. As a practical expedient, an entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to Fulfill a Binding Arrangement

152. **If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, IPSAS 12, *Inventories*, IPSAS 31, or IPSAS 45), an entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:**

(a) **The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved);**

(b) **The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) compliance obligations in the future; and**

(c) **The costs are expected to be recovered.**

153. For costs incurred in fulfilling a binding arrangement that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

154. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:

(a) Direct labor (for example, salaries and wages of employees who provide the promised services directly to a purchaser or third-party beneficiary);

(b) Direct materials (for example, supplies used in providing the promised services to a purchaser or third-party beneficiary);

(c) Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools, equipment and right-of-use assets used in fulfilling the binding arrangement);

(d) Costs that are explicitly chargeable to the resource provider under the binding arrangement; and

(e) Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).

155. An entity shall recognize the following costs as expenses when incurred:

(a) General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement, in which case an entity shall evaluate those costs in accordance with paragraph 154);

(b) Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement;

(c) Costs that relate to satisfied compliance obligations (or partially satisfied compliance obligations) in the binding arrangement (i.e., costs that relate to past fulfillment); and

(d) Costs for which an entity cannot distinguish whether the costs relate to unsatisfied compliance obligations or to satisfied compliance obligations (or partially satisfied compliance obligations).

Amortization and Impairment

156. An asset recognized in accordance with paragraph 148 or 152 shall be amortized on a systematic basis that is consistent with the satisfaction of the compliance obligation to which the asset relates. The asset may relate to promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph (a)).

157. An entity shall update the amortization to reflect a significant change in the entity's expected timing of the satisfaction of the compliance obligation to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.

158. An entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized in accordance with paragraph 148 or 152 exceeds:

(a) The remaining amount of consideration that the entity expects to receive for the satisfaction of the compliance obligations to which the asset relates; less

(b) The costs that relate directly to satisfying the compliance obligations and that have not been recognized as expenses (see paragraph 154).

159. For the purposes of applying paragraph 158 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction consideration (except for the requirements in paragraphs 119–121 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the resource provider's credit risk.

160. Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 148 or 152, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 31, and IPSAS 45). After applying the impairment test in paragraph 158, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 148 or 152 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, *Impairment of Cash-Generating Assets* to that cash-generating unit.

161. An entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph 158 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously.

Presentation

Display

162. When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the resource provider's transfer of consideration. An entity shall present any unconditional rights to consideration separately as a receivable.

163. If a resource provider transfers cash or another asset, or an entity has a right to consideration that is unconditional (i.e., a receivable), before the entity satisfies its compliance obligation, the entity shall present the binding arrangement as a binding arrangement liability when the transfer of consideration is made or is due (whichever is earlier). A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received consideration (or an amount of an unconditional transfer of consideration is due) from the resource provider.

164. If an entity performs by satisfying a compliance obligation before the transfer of consideration is received or before the unconditional transfer of consideration is due, the entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time. An entity shall assess a binding arrangement asset for impairment in accordance with IPSAS 41. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IPSAS 41 (see also paragraph (b)).

165. A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before consideration is due. For example, an entity would recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. In accordance with paragraph 31, an entity shall subsequently measure a receivable in accordance with IPSAS 41. Upon initial recognition of a receivable, any difference between the measurement of the receivable in accordance with IPSAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

166. This Standard uses the terms "binding arrangement asset" and "binding arrangement liability" but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Disclosure

167. **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:**

(a) **Its revenues from transactions without binding arrangements (see paragraphs 172–176);**

(b) **Its revenues from transactions with binding arrangements (see paragraphs 177–187);**

(c) **The significant judgments, and changes in the judgments, made in applying this Standard to those binding arrangements (see paragraphs 188–190); and**

(d) **Any assets recognized from the costs to obtain or fulfill a binding arrangement with a resource provider in accordance with paragraph 148 or 152 (see paragraphs 191–192).**

168. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics. See paragraphs AG203–AG204 for additional guidance.

169. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**

(a) **The amount of revenue from transactions recognized during the period, showing separately, and by major classes:**

(i) **Taxes;**

(ii) **Other compulsory contributions and levies;**

(iii) **Transfers; and**

(iv) **Compliance obligations in a binding arrangement.**

(b) **The amount of receivables recognized at the reporting date in respect of revenue;**

(c) **The amount of liabilities recognized at the reporting date in respect of transferred assets subject to compliance obligations;**

(d) **The amount of liabilities recognized at the reporting date in respect of concessionary loans that are subject to requirements on transferred assets;**

(e) **The existence and amounts of any advance receipts in respect of transactions; and**

(f) **The amount of any liabilities forgiven.**

170. **An entity shall disclose in the notes to the general purpose financial statements:**

(a) **The accounting policies adopted for the recognition of revenue;**

(b) **The judgments, and changes in the judgments, made in applying this Standard that significantly affect the determination of the amount and timing of revenue;**

(c) **For major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured;**

(d) **For major classes of taxation revenue and revenue from other compulsory contributions and levies that the entity cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy;**

(e) **The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and**

(f) **Qualitative and quantitative information about services in-kind that have been recognized.**

171. In the public sector, an entity may have a revenue transaction where the entity is compelled to satisfy an obligation for or impose a cost on the counterparty in the transaction, and the face value of the revenue transaction may not always be collectible. This may occur when the entity is compelled by way of legislation, constitutional authority, legally sanctioned process and policy decisions, or other mechanisms, and the counterparty may not have the ability or intention to pay. Examples of such transactions include revenue from

taxes or fines without binding arrangements, or revenue from satisfying a compliance obligation by providing goods or services to a third-party beneficiary in a binding arrangement. The entity shall disclose the following:

(a) A description of the legislation or policy decision which compels a party in the revenue transaction to satisfy its obligation to the entity in the revenue transaction;

(b) The amount of revenue from these transactions that was recognized after application of paragraphs 25 and 105 of this Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 115;

(c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable in accordance with paragraph 119, or as the amount from these transactions that was not recognized as revenue as it was considered to be an implicit price concession from the application of paragraph 115; and

(d) If the transaction consideration has been reduced after consideration of an implicit price concession from the application of paragraph 115, an entity shall disclose the following:

(i) The amount from these transactions that was recognized as revenue after identification of the implicit price concession; and

(ii) The amount from these transactions that was not recognized as revenue, as it was considered an implicit price concession.

Specific Disclosure for Revenue without Binding Arrangements

172. As noted in paragraph 46, in many cases an entity will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has or have elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.

173. Paragraph (e) requires an entity to disclose the existence of advance receipts. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding.

174. Paragraph (e) requires an entity to make disclosures about the nature and type of major classes of bequests, gifts, and donations it has received. These inflows of resources are received at the discretion of the resource provider, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly.

175. Entities that do not recognize services in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the entity. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

176. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these services in-kind and measure them at their fair value. Paragraph 175 strongly encourages an entity to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives

during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

Specific Disclosure for Revenue with Binding Arrangements

177. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:

(a) Revenue recognized from binding arrangements with compliance obligations, separately from its other sources of revenue; and

(b) Any impairment losses recognized (in accordance with IPSAS 41) on any receivables or binding arrangement assets arising from an entity's binding arrangements, which the entity shall disclose separately from impairment losses from other binding arrangements.

178. Compliance obligations impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognized in respect of compliance obligations assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph (c).

Disaggregation of Revenue

179. An entity shall disaggregate revenue recognized from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs AG205–AG207 when selecting the categories to use to disaggregate revenue.

180. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 179) and revenue information that is disclosed for each reportable segment, if the entity applies IPSAS 18, *Segment Reporting*.

Binding Arrangement Balances

181. An entity shall disclose all of the following:

(a) The opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements, if not otherwise separately presented or disclosed;

(b) Revenue recognized in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and

(c) Revenue recognized in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).

182. An entity shall explain how the timing of satisfaction of its compliance obligations (see paragraph (a)) relates to the typical timing of payment (see paragraph (b)) and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.

183. An entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:

(a) Changes due to public sector combinations;

(b) Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;

(c) Impairment of a binding arrangement asset;

(d) A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and

(e) A change in the time frame for a compliance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability).

Compliance Obligations

184. An entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:

(a) When the entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance obligations are satisfied in a bill-and-hold arrangement;

(b) The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 119–121);

(c) The nature of the compliance obligations the entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (i.e., if the entity is acting as an agent);

(d) Obligations for returns, refunds and other similar obligations; and

(e) Types of warranties and related obligations.

Transaction Consideration Allocated to the Remaining Compliance Obligations

185. An entity shall disclose the following information about its remaining compliance obligations:

(a) The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph 185(a), which the entity shall disclose in either of the following ways:

(i) On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining compliance obligations; or

(ii) By using qualitative information.

186. As a practical expedient, an entity need not disclose the information in paragraph 185 for a compliance obligation if either of the following conditions is met:

(a) The compliance obligation is part of a binding arrangement that has an original expected duration of one year or less; or

(b) The entity recognizes revenue from the satisfaction of the compliance obligation in accordance with paragraph AG90.

187. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 186 and whether any consideration from binding arrangements is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 185. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained (see paragraphs 119–121).

Significant Judgments in the Application of this Standard

Determining the Timing of Satisfaction of Compliance Obligations

188. For compliance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) An explanation of why the methods used provide a faithful depiction of the use or transfer of goods or services.

189. For compliance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a compliance obligation is satisfied.

Determining the Transaction Consideration and the Amounts Allocated to Compliance Obligations

190. An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) Assessing whether an estimate of variable consideration is constrained;

(c) Allocating the transaction consideration, including estimating stand-alone values of promised goods or services, and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and

(d) Measuring obligations for returns, refunds and other similar obligations.

Assets Recognized from the Costs to Obtain or Fulfill a Binding Arrangement with a Resource Provider

191. An entity shall describe both of the following:

(a) The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 148 or 152); and

(b) The method it uses to determine the amortization for each reporting period.

192. An entity shall disclose all of the following:

(a) The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 148 or 152), by main category of asset (for example, costs to obtain binding arrangements with resource providers, pre-binding arrangement costs and setup costs); and

(b) The amount of amortization and any impairment losses recognized in the reporting period.

Practical Expedients

193. If an entity elects to use the practical expedient in either paragraph 126 (about the existence of a significant financing component) or paragraph 151 (about the incremental costs of obtaining a binding arrangement), the entity shall disclose that fact.

Effective Date and Transition

Effective Date

194. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.**

194A. **Paragraphs 203A, AG153A–AG153B, AG202A–AG202J were added and paragraphs AG1 and AG154 were amended by *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, *Measurement*, IPSAS 47, and IPSAS 48, *Transfer Expenses* at the same time.**

195. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

196. For the purposes of the transition requirements in paragraphs 197–203:

(a) The date of initial application is the start of the reporting period in which an entity first applies this Standard; and

(b) A completed binding arrangement is a binding arrangement for which:

(i) The entity has satisfied all of the conditions identified in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*; or

(ii) The entity has satisfied all of its promises identified in accordance with IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*.

197. An entity shall apply this Standard using one of the following two methods:

(a) Retrospectively to each prior reporting period presented in accordance with IPSAS 3, subject to the expedients in paragraph 199; or

(b) Retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application in accordance with paragraphs 201–203.

198. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the first annual period for which this Standard is applied (the "immediately preceding period") and only if the entity applies this Standard retrospectively in accordance with paragraph (a)). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

199. An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph (a):

(a) For completed binding arrangements, an entity need not restate binding arrangements that:

(i) Begin and end within the same annual reporting period; or

(ii) Are completed binding arrangements at the beginning of the earliest period presented.

(b) For completed binding arrangements that have variable consideration, an entity may use the transaction consideration at the date the binding arrangement was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(c) For binding arrangements that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement in accordance with paragraphs 65–66. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

(i) Identifying the satisfied and unsatisfied compliance obligations;

(ii) Determining the transaction consideration; and

(iii) Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.

(d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction consideration allocated to the remaining compliance obligations and an explanation of when the entity expects to recognize that amount as revenue.

200. For any of the practical expedients in paragraph 199 that an entity uses, the entity shall apply that expedient consistently to all binding arrangements within all reporting periods presented. In addition, the entity shall disclose all of the following information:

(a) The expedients that have been used; and

(b) To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

201. If an entity elects to apply this Standard retrospectively in accordance with paragraph (b), the entity shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application (for example, January 1, 20XX for an entity with a December 31 year-end).

202. An entity applying this Standard retrospectively in accordance with paragraph (b) may also use the practical expedient described in paragraph (c), either:

(a) For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or

(b) For all modifications to a binding arrangement that occur before the date of initial application.

If an entity uses this practical expedient, the entity shall apply the expedient consistently to all binding arrangements and disclose the information required by paragraph 200.

203. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph (b):

(a) The amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to IPSAS 9, IPSAS 11, and IPSAS 23; and

(b) An explanation of the reasons for significant changes identified.

203A. The transition requirements for right-of-use assets in paragraphs 106–117, 123, and 124–126 of IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

Withdrawal of Other Standards

204. This Standard supersedes the following Standards:

(a) IPSAS 9, issued in 2001;

(b) IPSAS 11, issued in 2001; and

(c) IPSAS 23, issued in 2006.

IPSAS 9, IPSAS 11, and IPSAS 23 remain applicable until IPSAS 47 is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 47.

AG1. This Application Guidance is organized into the following categories:

(a) Scope (paragraphs AG2–AG9);

(b) Definitions (paragraphs AG10–AG12);

(c) Identify the Revenue Transaction (paragraphs AG13–AG31);

(i) Enforceability (paragraphs AG14–AG25);

(ii) Parties in an Arrangement (paragraphs AG26–AG31);

(d) Revenue from Transaction with Binding Arrangements (paragraphs AG32–AG138);

(i) Criteria for the Binding Arrangement Accounting Model (paragraphs AG32–AG39);

(ii) Breach of Terms and Conditions of a Binding Arrangement (paragraphs AG40–AG42);

(iii) Identifying Compliance Obligations in a Binding Arrangement (paragraphs AG43–AG56);

(iv) Initial Recognition of Revenue (paragraphs AG57–AG58);

(v) Existence and Recognition of a Liability (paragraphs AG59–AG62);

(vi) Satisfaction of Compliance Obligations (paragraphs AG63–AG81);

(vii) Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraphs AG82–AG85);

(viii) Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs AG86–AG95);

(ix) Right of Return for a Transfer of Goods or Services to Another Party (paragraphs AG96–AG103);

(x) Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraphs AG104–AG106);

(xi) Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraphs AG107–AG109);

(xii) Determination of the Stand-Alone Value (paragraph AG110);

(xiii) Warranties for Goods or Services Transferred to Another Party (paragraphs AG111–AG116);

(xiv) Principal Versus Agent Considerations (paragraphs AG117–AG125);

(xv) Resource Provider Options for Additional Goods or Services (paragraphs AG126–AG130);

(xvi) Resource Providers' Unexercised Rights (paragraphs AG131–AG134);

(xvii) Non-Refundable Upfront Fees (and Some Related Costs) for a Transfer of Goods or Services to Another Party (paragraphs AG135–AG138);

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

(i) Capital Transfers (paragraphs AG140–AG142);

(ii) Services In-Kind (paragraphs AG143–AG149);

(iii) Pledges (paragraph AG150);

(iv) Advance Receipts of Transfers (paragraph AG151);

(v) Concessionary Loans (paragraphs AG152–AG153);

(va) Concessionary Leases for Lessees (paragraphs AG153A–AG153B);

(vi) Measurement of Transferred Assets (paragraph AG154);

(vii) Debt Forgiveness and Assumptions of Liabilities (paragraphs AG155–AG158);

(viii) Fines (paragraphs AG159–AG160);

(ix) Bequests (paragraphs AG161–AG163);

(x) Gifts and Donations, including Goods In-Kind (paragraphs AG164–AG167);

(xi) Licensing (paragraphs AG168–AG182);

(xii) Repurchase Agreements (paragraphs AG183–AG196);

(xiii) Consignment Arrangements (paragraphs AG197–AG198);

(xiv) Bill-and-Hold Arrangements (paragraphs AG199–AG202);

(xv) Right-of-use Assets In-kind (paragraphs AG202A–AG202J); and

(f) Disclosure (paragraphs AG203–AG207);

(i) Disclosure of Disaggregated Revenue (paragraphs AG205–AG207).

Scope (paragraph 3)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for revenue transactions. Revenue may arise from transactions without binding arrangements or with binding arrangements. The definitions in paragraph 4 establish the key elements in applying the scope of the Standard.

AG3. While taxation is the major source of revenue for many governments, other public sector entities rely on transfers (sometimes known as grants) and other sources of funding. Examples of these revenues include, but are not limited to:

(a) Taxes;

(b) Transfers (whether cash or non-cash), including debt forgiveness, fines, bequests, gifts, donations, goods in-kind, services in-kind, and the off-market portion of concessionary loans received; and

(c) Capital transfers.

AG4. This Standard specifies the accounting for the incremental costs of obtaining a binding arrangement and for the costs incurred to satisfy a binding arrangement if those costs are not within the scope of another Standard (see paragraphs 148–161). An entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement (or part of that binding arrangement) that is within the scope of this Standard.

Scope Exclusions

AG5. Gains from the sale of non-financial assets within the scope of IPSAS 16, *Investment Property*, IPSAS 31, *Intangible Assets*, or IPSAS 45, *Property, Plant, and Equipment*, that are not an output of an entity's activities are not considered revenue. However, the recognition and measurement principles within this Standard may be applied to account for the disposals of such assets.

AG6. This Standard does not apply to public sector combinations. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all of the assets and liabilities of another operation or entity. Public sector combinations are accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

AG7. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Contributions from owners are defined in IPSAS 1, *Presentation of Financial Statements*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition, and to consider the substance rather than the form of the transaction. A contribution from owners may be evidenced by, for example:

(a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;

(b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or

(c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

AG8. Agreements that (a) specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

AG9. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners but specifies that the entity will pay fixed distributions to the resource provider, with a return of the resource provider's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in IPSAS 28, *Financial Instruments: Presentation*, when distinguishing liabilities from contributions from owners.

Definitions (paragraphs 4–8)

Binding Arrangement

AG10. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations conferred on them in the arrangement.

AG11. This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this Standard to a portfolio of binding arrangements (or compliance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

Identify the Revenue Transaction (paragraphs 9–15)

AG13. An entity shall consider the terms of its revenue transaction and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to arrangements with similar characteristics and in similar circumstances.

Enforceability

AG14. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties in the arrangement accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.

AG15. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name; however, there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through "equivalent means", the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG16. In the public sector, an arrangement is enforceable when each of the parties in the arrangement is able to enforce their respective rights and obligations. An arrangement is enforceable if the agreement includes:

(a) Clearly specified rights and obligations for each involved party; and

(b) Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.

AG17. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their obligation(s) in the arrangement, through legal or equivalent means. If the entity is not able to determine how the mechanisms of enforceability identified would in substance enable the entity to hold the other parties in the arrangement accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG18. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the

arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG19. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the stated obligations in the arrangement.

AG20. Cabinet or ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the stated obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfill the promises established within the arrangement or to seek redress should these promises not be satisfied.

AG21. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of obligations by an entity, this may result in a valid enforcement mechanism.

AG22. An entity may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the other party. In general, the ability to reduce or withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the resource provider to provide such funding. However, if the entity is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the reduction in future funding could be considered a valid enforcement mechanism.

AG23. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are the resource provider’s ability to reduce future funding and its past history of doing so.

AG24. A statement of intent or public announcement by a resource provider (e.g., government) to spend money or deliver goods and/or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a resource provider and an entity (resource recipient).

AG25. In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations, but they have not been historically enforced. If past experience with a resource provider indicates that the resource provider never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and may indicate that such terms do not in substance hold the other entity accountable and the arrangement is not considered enforceable. However, if the entity has no experience with the resource provider, or has not previously breached any terms that would prompt the resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the resource provider would enforce the terms, and the arrangement is considered enforceable. An entity should consider any past history of enforcement as one of the relevant factors in its overall assessment of enforceability and whether the entities can objectively be held accountable for enforcing the rights and satisfying the obligations they agreed to in the arrangement.

Parties in an Arrangement

AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

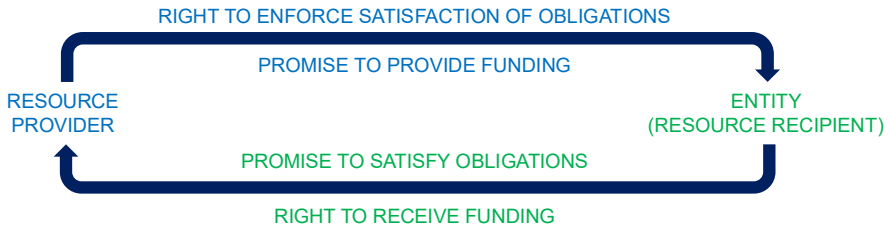
AG27. For public sector-specific transactions with binding arrangements, the resource provider is the party that provides consideration to the entity for goods or services set out in a binding arrangement but is not necessarily the party that receives those goods or services. The resource provider may provide consideration for the entity to:

(a) Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return;

(b) Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser[7], as it receives goods or services that are an output of an entity's activities under a binding arrangement for its own consumption; or

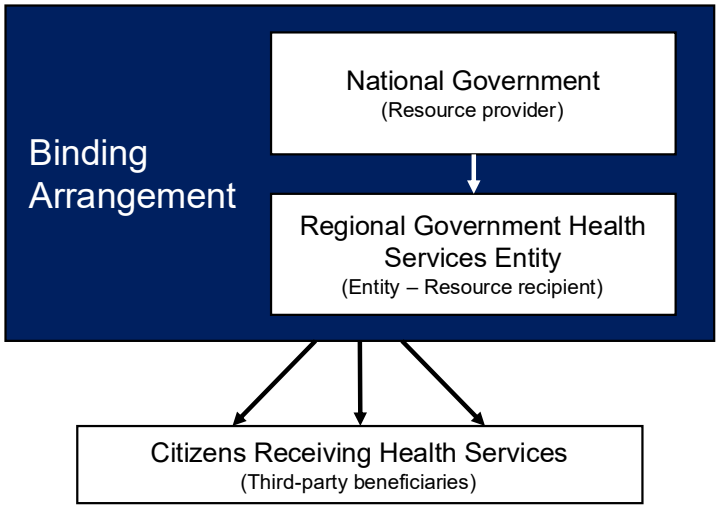
(c) Transfer distinct goods or services to a third-party beneficiary. In multi-party arrangements (discussed below), the resource provider has a binding arrangement with and provides consideration to the entity to deliver goods or services to a third-party beneficiary. For example, if a central government provides funding to a regional health department to conduct bone density screening for citizens over the age of 55, the central government is the resource provider and the citizens are the third-party beneficiaries. The resource provider can enforce delivery of those goods or services or seek recourse from the entity if the promises in the binding arrangement are not satisfied.

AG28. That is, at a minimum, the entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the entity providing the funding (the resource provider) must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration. The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



AG29. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the entity to deliver goods or services. However, for these multi-party arrangements to be within the scope of this Standard the resource provider must have the ability to force the entity to deliver distinct goods or services to the third-party beneficiaries. In these multi-party arrangements, the entity (resource recipient) is not an agent of the resource provider because the entity gains control of the consideration from the resource provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram:

[7] A purchaser is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption. A customer is a type of purchaser.



AG30. In assessing enforceability of an arrangement, the entity considers not only its ability to enforce its right to receive funds related to the completed obligation(s), but also the resource provider's ability to compel the entity to satisfy its obligations.

AG31. Some revenue transactions may be enforceable, but only create enforceable rights and obligations for one party in the arrangement. These transactions do not meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.

Revenue from Transactions with Binding Arrangements

Criteria for the Binding Arrangement Accounting Model (paragraphs 56–61)

Economic Substance

AG32. An entity shall determine whether a transaction with a binding arrangement that requires a transfer of distinct goods or services to a purchaser or third-party beneficiary has economic substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. A transaction has economic substance if:

(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred: or

(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) The differences in (a) and (b) are significant relative to the current value of the assets exchanged.

AG33. For the purposes of determining whether a transaction has economic substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The results of these analyses may be clear without an entity having to perform detailed calculations.

AG34. For the purposes of this Standard, economic substance includes commercial substance.

Probability of Collection of Consideration to which an Entity is Entitled – Consequences of Paragraph (e)

AG35. An entity should apply judgment in considering the facts and circumstances upon entering into a binding arrangement to assess the resource provider's ability and intent at inception to pay the expected consideration at a future date.

AG36. An entity should assess collectability at the inception of the binding arrangement based on the entity's best estimate of the risks associated with the resource provider in the binding arrangement. This initial assessment may differ from actual consideration collected subsequently as a result of changes in conditions or expectations. Such changes would be reflected as either impairment (decline from initial circumstances) or recognition of the full consideration (exceeding the expected collection determined at inception).

AG37. A price concession may be provided as part of the binding arrangement. A price concession is generally known by the parties at the inception of the binding arrangement, either implicitly or explicitly, and potentially informed by past history with the parties. This Standard typically measures revenue based on the transaction consideration to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items, but it is not reduced for impairment losses. However, where an entity is providing goods or services and accepts a lower amount of consideration from the resource provider than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession (see paragraphs 109 and (b)). The entity assesses whether this lower amount of consideration, after taking the implicit price concession into account, meets the collectability criterion in paragraph (e).

AG38. In some binding arrangements, entities are compelled by legislation to provide certain goods or services (such as water and electricity) to all citizens, regardless of whether the citizens have the intention or ability to pay for those goods or services.

AG39. When payment of the consideration, less any price concession, is not probable for delivering the good or service to certain groups of citizens, the criterion for identifying a binding arrangement in paragraph (e) is not met. In these circumstances, where the collection of the consideration, less any price concession, is not probable at the inception of the binding arrangement, an entity shall apply paragraph 58 of this Standard.

Breach of Terms and Conditions of a Binding Arrangement

AG40. The accounting treatment of a breach of the terms and conditions of a binding arrangement depends on:

(a) Whether there are any incomplete compliance obligations remaining under the arrangement;

(b) When the breach occurred – i.e., whether it was in the period in which the breach is discovered or in a prior period; and

(c) The reason for the breach.

AG41. If the breach occurs in the current period and is identified before the authorization of the financial statements for issue, the entity will recognize a liability for the amount to be refunded to the resource provider and derecognize any revenue recognized during the reporting period.

AG42. Where the breach is determined to have occurred in a prior period, the accounting treatment will be decided by assessing whether the breach has resulted in a:

(a) Change in accounting estimate as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. Accounting estimates are used where items in financial statements cannot be measured with precision and judgment may be required in measuring those items as described in IPSAS 3;

(b) Prior period error which has arisen from a failure to use, or from the misuse of, faithfully representative information that was available when the financial statements for the period were authorized for issue or could reasonably be expected to have been obtained; or

(c) Separate past event because the amount recognized in prior period financial statements is not an estimated amount and was based on the use of faithfully representative information available at the date of the approval of the financial statements for the relevant reporting period.

Identifying Compliance Obligations in a Binding Arrangement (paragraphs 68–77)

Promises to Use Resources

AG43. A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for a distinct good or service or transfer a distinct good or service to a purchaser (i.e., resource provider) or third-party beneficiary. The objectives of a compliance obligation may be incremental to the entity's service delivery objectives, or additional objectives in which the entity has engaged through the binding arrangement. The promise to use resources results in other resources (i.e., distinct goods or services that provide rights to economic benefits or service potential, or both) for either the reporting entity or another external party (either the purchaser or a third-party beneficiary. See paragraph AG49 for further guidance). The entity may also receive the benefit of the good or service but directs the use of the benefit to other parties.

AG44. This Standard requires an entity to appropriately identify any compliance obligations when it enters into a binding arrangement, and then recognize revenue as or when it satisfies each of the identified compliance obligations in accordance with the terms and conditions of the binding arrangement.

AG45. In the public sector, identifying compliance obligations may require significant judgment. A necessary condition for the existence of a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. An entity considers the following factors in identifying whether a promise is sufficiently specific:

(a) The nature or type of the promise to use resources;

(b) The cost or value of the distinct goods or services from the promise to use resources;

(c) The quantity of the distinct goods or services from the promise to use resources; and

(d) The period over which the use of resources occurs.

AG46. The existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a compliance obligation as defined in this Standard. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which an entity is using resources, providing services and achieving its service performance objectives. A performance indicator is often an internally imposed measure of performance and not a compliance obligation.

Promises to Use Resources Internally

AG47. In many instances, an entity's promise in a binding arrangement requires the entity to use resources internally for a distinct good or service to achieve specific service delivery objectives. Examples of resources provided to a public sector entity in a binding arrangement may include:

(a) Transfers from national governments to provincial, state or local governments;

(b) Transfers from state/provincial governments to local governments;

(c) Transfers from governments to other public sector entities;

(d) Transfers to governmental agencies that are created by laws or regulations to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

(e) Transfers from donor agencies to governments or other public sector entities.

AG48. A resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms. The compliance obligations may be imposed by requirements in binding arrangements establishing the basis of transfers, or may arise from the normal operating environment, such as the recognition of advance receipts.

Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG49. In some instances, an entity's promise in a binding arrangement requires the entity to use resources to transfer a distinct good or service to an external party or parties (i.e., to the purchaser (resource provider) or a third-party beneficiary) identified in the binding arrangement, in compliance with the terms and conditions of the binding arrangement. In practice, an entity will consider whether it maintains control of the resources, or the resources are converted into a good and/or service and are required to be transferred to the resource provider or a third-party beneficiary. In this case, the resource provider is effectively a purchaser of distinct goods or services from the entity.

AG50. A key feature distinguishing an entity's promise to transfer a distinct good or service from other promises in the binding arrangement is the clear identification of an external party receiving the distinct goods or services. A binding arrangement which imposes an obligation on an entity to transfer a distinct good or service to a specified external party (i.e., the purchaser or a specified third-party beneficiary) generally provides a clear indicator of specificity and transfer of control of the economic benefits and service potential of the resources from the entity to the external party.

AG51. Depending on the binding arrangement, goods or services promised in a compliance obligation may include, but are not limited to, the following:

(a) Provision of goods produced by an entity (for example, inventory such as publications or municipal water provided for a fee);

(b) Purchase of goods by an entity and provided to citizens (for example, waste collection bins);

(c) Resale of rights to goods or services purchased by an entity (for example, an emission allowance resold by an entity acting as a principal, see paragraphs AG117–AG125);

(d) Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a government for that purpose);

(e) Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities);

(f) Providing a service of standing ready to provide goods or services (for example, paramedics on site at an athletic competition organized by a community group);

(g) Providing a service of arranging for another party to transfer goods or services to a purchaser or third-party beneficiary (for example, the Post Office acting as an agent of another party by collecting telephone and electricity payments, see paragraphs AG117–AG125);

(h) Granting rights to goods or services to be provided in the future that a purchaser can resell or provide to its customer (for example, the health department providing drugs and supplements to pharmacies promises to transfer an additional good or service to clinics that purchase the drugs and supplements from the pharmacies);

(i) Constructing, manufacturing or developing an asset on behalf of a purchaser (for example, a government works department building a recreational facility for another municipality);

(j) Granting licenses (see paragraphs AG168–AG182); and

(k) Granting options to purchase additional goods or services (when those options provide a purchaser with a material right (see paragraphs AG126–AG130)).

AG52. An entity earns and recognizes revenue when it satisfies a compliance obligation by transferring a promised good or service to a purchaser or third-party beneficiary. The transfer of the good or service is indicated when the purchaser or third-party beneficiary gains control of the promised goods or services. Paragraph 18 provides indicators of control, which include:

(a) The ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset; and

(b) The ability to prevent others from directing the economic benefits or service potential embodied in the asset.

Identifying Distinct Promises to Use Resources for Another Party (A Resource Provider (Purchaser) or Third-Party Beneficiary)

AG53. Promises to use resources to transfer distinct goods or services to an external party generally have a greater degree of specificity. An entity is required to clearly identify such compliance obligations in order to complete a more objective analysis and precise account for the recognition and measurement of revenue from these transactions.

AG54. In cases where a binding arrangement includes a compliance obligation to transfer distinct goods or services to a purchaser or third-party beneficiary, a good or service promised is distinct if both of the following criteria are met (see paragraph 73):

(a) The promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential either on its own or together with other resources that are readily available to the party receiving the good or service (i.e., the good or service is capable of being distinct); and

(b) The entity's promise to use resources to transfer a distinct good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise to transfer the good or service is distinct within the context of the binding arrangement).

AG55. In such binding arrangements, the promise to use resources to transfer distinct goods or services to the purchaser or a third-party beneficiary can generate other resources that provide rights to economic benefits and/or service potential when the entity's transfer of the good or service to the party receiving the goods or services contributes to the purchaser achieving its service delivery objectives.

AG56. Compliance obligations that require the transfer of promised goods or services to the purchaser or a third-party beneficiary are separately identifiable (i.e., distinct) from other promises in the same binding arrangement to allow for the purchaser to be able to determine when that promise is satisfied. Therefore, it is possible to have several compliance obligations in one binding arrangement.

Initial Recognition of Revenue Transactions with a Binding Arrangement (paragraph 78)

AG57. In accordance with paragraph 78, when a binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. An entity's rights and obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined rights and obligations constitute a single asset or liability

that is measured at zero. Individual rights and obligations are recognized as items (assets, liabilities, revenue and expenses depending on their nature) only when (or as) one or more parties to the binding arrangement satisfy their obligations.

AG58. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability or revenue for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Existence and Recognition of a Liability (paragraphs 81–86)

AG59. An entity's compliance obligation in a binding arrangement may give rise to a liability. A liability is defined as a present obligation of the entity to transfer resources as a result of past events.

A Present Obligation

AG60. A present obligation may be legally binding (i.e., through legal or equivalent means) or non-legally binding. A compliance obligation is a legally binding present obligation, in revenue transactions with binding arrangements, to use resources in compliance with the terms of the binding arrangement. All binding arrangements include at least one compliance obligation.

As a Result of Past Events

AG61. Public sector entities may willingly enter into binding arrangements in order to deliver their service objectives and obtain assets from governments or other entities, or by purchasing or producing them. A liability may exist as a result of past events, specifically when:

(a) The entity enters into a binding arrangement with one or more parties; and

(b) The resource provider has provided promised resources before the entity satisfies the associated compliance obligation(s) (i.e., the entity has received a prepayment and the binding arrangement is partially satisfied).

Transactions or events expected to occur in the future do not in themselves give rise to compliance obligations.

A Transfer of Resources

AG62. The enforceability of a binding arrangement provides each party in the arrangement with the ability to hold the parties accountable to either satisfy their compliance obligations or face consequences if they do not satisfy their compliance obligations. When the entity has received resources after entering into a binding arrangement as a willing party, a liability exists if the consequence of the entity not satisfying its compliance obligation, as a result of these past events, is to transfer resources to another party (e.g., to the resource provider). Examples of consequences of non-compliance requiring a transfer of resources include, but are not limited to, repaying the resources to the resource provider or incurring some other form of penalty. Such a consequence requires a transfer of resources that the entity would not otherwise have had to transfer (i.e., incremental) had it not willingly entered into the binding arrangement and received resources from the resource provider associated with an unsatisfied or partially unsatisfied obligation (i.e., as a consequence of past events).

Satisfaction of Compliance Obligations (paragraphs 87–104)

Compliance Obligations to Use Resources for Goods or Services Internally

AG63. Paragraph 92 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG64–AG65);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced (see paragraph AG66); or

(c) The entity has an enforceable right to consideration for performance completed to date (see paragraphs AG67–AG71).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph (a))

AG64. For some types of compliance obligations, the assessment of whether the entity receives the economic benefits or service potential provided by the entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a daily volunteer service) in which the receipt and simultaneous consumption of the economic benefits or service potential by the entity as it satisfies its compliance obligation can be readily identified.

AG65. For other types of compliance obligations, an entity may not be able to readily identify whether the entity simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and

(b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (paragraph (b))

AG66. In determining whether the entity controls an asset as it is created or enhanced in accordance with paragraph (b), an entity shall apply the requirements for control in paragraphs 89–90, 94, and AG183-AG196. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Right to Consideration for Performance Completed to Date (paragraph (c))

AG67. In accordance with paragraphs (c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its compliance obligations completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services used to date for no charge or for a nominal charge, or the price of the goods or services used to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or

(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

AG68. An entity's right to consideration for compliance obligations completed to date need not be a present unconditional right to consideration. In many cases, an entity will have an unconditional right to consideration only at an agreed-upon milestone or upon complete satisfaction of the compliance obligation. In assessing whether it has a right to consideration for compliance obligations completed to date, an entity shall consider whether it would have an enforceable right to demand or retain consideration for compliance obligations completed to date if the binding arrangement were to be terminated before completion for reasons other than the entity's failure to perform as promised.

AG69. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to use resources internally for distinct goods or services in compliance with the binding arrangement and require the resource provider to pay the consideration promised in exchange for those satisfied compliance obligations. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).

AG70. In assessing the existence and enforceability of a right to consideration for compliance obligations completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement. This would include an assessment of whether:

(a) Legislation, administrative practice or legal precedent confers upon the entity a right to consideration for performance to date even though that right is not specified in the binding arrangement with the resource provider;

(b) Relevant legal precedent indicates that similar rights to consideration for performance completed to date in similar binding arrangements have no binding legal effect; or

(c) An entity's customary practices of choosing not to enforce a right to consideration has resulted in the right being rendered unenforceable in that legal environment. However, notwithstanding that an entity may choose to waive its right to consideration in similar binding arrangements, an entity would continue to have a right to consideration to date if, in the binding arrangement with the resource provider, its right to consideration for performance to date remains enforceable.

AG71. The payment schedule specified in a binding arrangement does not necessarily indicate whether an entity has an enforceable right to consideration for compliance obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a resource provider, the payment schedule might not necessarily provide evidence of the entity's right to consideration for compliance obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration received from the resource provider is refundable for reasons other than the entity failing to perform as promised in the binding arrangement.

Compliance Obligations to Transfer Goods or Services to Another Party

AG72. Paragraph 95 provides that a compliance obligation is satisfied over time if one of the following criteria is met:

(a) The purchaser (the resource provider in the binding arrangement) or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs (see paragraphs AG73–AG74);

(b) The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced (see paragraph AG75); or

(c) The entity's performance does not create an asset with an alternative use to the entity (see paragraphs AG76–AG78) and the entity has an enforceable right to consideration for performance completed to date (see paragraphs AG79–AG81).

Simultaneous Receipt and Consumption of the Economic Benefits or Service Potential (paragraph (a))

AG73. For some types of compliance obligations, the assessment of whether a resource provider receives the economic benefits or service potential of an entity's performance as the entity performs and simultaneously consumes those economic benefits or service potential as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the purchaser or third-party beneficiary of the economic benefits or service potential of the entity's performance can be readily identified.

AG74. For other types of compliance obligations, an entity may not be able to readily identify whether a resource provider simultaneously receives and consumes the economic benefits or service potential from the entity's performance as the entity performs. In those circumstances, a compliance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to satisfy the remaining compliance obligation to the resource provider. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:

(a) Disregard potential restrictions or practical limitations in the binding arrangement that otherwise would prevent the entity from transferring the remaining compliance obligation to another entity; and

(b) Presume that another entity satisfying the remainder of the compliance obligation would not have the economic benefits or service potential of any asset that is presently controlled by the entity and that would remain controlled by the entity if the compliance obligation were to transfer to another entity.

Entity Controls the Asset as it is Created or Enhanced (paragraph (b))

AG75. In determining whether a resource provider controls an asset as it is created or enhanced in accordance with paragraph (b), an entity shall apply the requirements for control in paragraphs 89–90, 97, and AG183–AG185. The asset that is being created or enhanced (for example, a work-in-progress asset) could be either tangible or intangible.

Entity's Satisfaction does not Create an Asset with an Alternative Use (paragraph (c))

AG76. In assessing whether an asset has an alternative use to an entity in accordance with paragraphs (c) and 96, an entity shall consider the effects of restrictions and practical limitations in the binding arrangement on the entity's ability to readily direct that asset for another use, such as providing it to a different entity. The possibility of the binding arrangement with the resource provider being terminated is not a relevant consideration in assessing whether the entity would be able to readily direct the asset for another use.

AG77. A restriction in the binding arrangement on an entity's ability to direct an asset for another use must be substantive for the asset not to have an alternative use to the entity. A restriction in the binding arrangement is substantive if a resource provider could enforce its rights to the promised asset if the entity sought to direct the asset for another use. In contrast, a restriction in the binding arrangement is not substantive if, for example, an asset is largely interchangeable with other assets that the entity could transfer to another resource provider without breaching the binding arrangement and without incurring significant costs that otherwise would not have been incurred in relation to that binding arrangement.

AG78. A practical limitation on an entity's ability to direct an asset for another use exists if an entity would incur significant economic losses to direct the asset for another use. A significant economic loss could arise because the entity either would incur significant costs to rework the asset or would only be able to provide the asset at a significant loss. For example, an entity may be practically limited from redirecting assets that either have design specifications that are unique to a resource provider or are located in remote areas.

Right to Consideration for Performance Completed to Date (paragraph (c))

AG79. In accordance with paragraphs (c) and 93, an entity has a right to consideration for compliance obligations completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the resource provider or another party terminates the binding arrangement for reasons other than the entity's failure to perform as promised. An amount that would compensate an entity for compliance obligations completed to date would be an amount that approximates the total cost of the goods or services transferred to date for no charge or for a nominal charge, or the price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the compliance obligation plus a reasonable margin) rather than compensation for only the entity's potential loss of surplus if the binding arrangement were to be terminated. Compensation for a reasonable margin need not equal the margin expected if the binding arrangement was satisfied as promised, but an entity should be entitled to compensation for either of the following amounts:

(a) A proportion of the expected margin in the binding arrangement that reasonably reflects the extent of the entity's performance under the binding arrangement before termination by the resource provider (or another party); or

(b) A reasonable return on the entity's cost of capital for similar binding arrangements (or the entity's typical operating margin for similar binding arrangements) if the specific margin of the binding arrangement is higher than the return the entity usually generates from similar binding arrangements.

AG80. In some binding arrangements, a resource provider may have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement or the resource provider might not have any right to terminate the binding arrangement. If a resource provider acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when a resource provider fails to perform its obligations as promised), the binding arrangement (or other laws) might entitle the entity to continue to transfer to the purchaser or third-party beneficiary the goods or services promised in the binding arrangement and require the resource provider to pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to consideration for compliance obligations completed to date because the entity has a right to continue to perform its obligations in accordance with the binding arrangement and to require the resource provider to perform its obligations (which include paying the promised consideration).

AG81. An entity should also consider paragraphs AG68, AG70 and AG71 in assessing its right to consideration for performance completed to date related to compliance obligations that require a transfer of goods or services to another party.

Resource Provider Acceptance of the Entity's Transfer of Goods or Services (paragraph 97)

AG82. In accordance with paragraph (e), a resource provider's acceptance of an asset may indicate that the resource provider has obtained control of the asset. Resource provider acceptance clauses may allow the resource provider to cancel a binding arrangement or require an entity to take remedial action if a good or service does not meet agreed-upon specifications. An entity shall consider such clauses when evaluating when the resource provider obtains control of a good or service.

AG83. If an entity can objectively determine that control of a good or service has been transferred to the resource provider in accordance with the agreed-upon specifications in the binding arrangement, then resource provider acceptance is a formality that would not affect the entity's determination of when the resource provider has obtained control of the good or service. For example, if the acceptance clause is based on meeting specified size and weight characteristics, an entity would be able to determine whether those criteria have been met before receiving confirmation of resource provider acceptance. The entity's experience with binding arrangements for similar goods or services may provide evidence that a good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement. If revenue is recognized before the resource provider accepts the asset, the entity still must consider whether there are any remaining compliance obligations (for example, installation of equipment) and evaluate whether to account for them separately.

AG84. However, if an entity cannot objectively determine that the good or service provided to the purchaser or third-party beneficiary is in accordance with the agreed-upon specifications in the binding arrangement, then the entity would not be able to conclude that the resource provider has obtained control until the entity receives acceptance by the resource provider. That is because in that circumstance the entity cannot determine that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from the good or service.

AG85. If an entity delivers a product to a purchaser or third-party beneficiary for trial or evaluation purposes and the resource provider is not committed to pay any consideration until the trial period lapses, control of the product is not transferred to the resource provider until either the resource provider accepts the product or the trial period lapses.

Methods for Measuring Progress towards Complete Satisfaction of a Compliance Obligation (paragraphs 98–104)

AG86. Methods that can be used to measure an entity's progress towards complete satisfaction of a compliance obligation satisfied over time include the following:

(a) Output methods (see paragraphs AG87–AG91); and

(b) Input methods (see paragraphs AG92–AG95).

Output Methods

AG87. Output methods recognize revenue on the basis of direct measurements of the value to the entity receiving the outputs from the compliance obligations satisfied to date relative to the remaining compliance obligations under the binding arrangement. Output methods include methods such as specified activities performed to date, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.

AG88. A specified activity is a particular action, stated in a binding arrangement, that the entity must perform and for which the resource provider can compel the entity to perform, such as construct a hospital or conduct a form of research. As a detailed example, a resource provider provides funding to a government science agency (resource recipient) to conduct research and development into a plant-based meat substitute. Any intellectual property developed by the government science agency remains the property of that agency. The

funding is provided on the basis of a detailed project plan (with the individual stages of research and development identified) provided by the government science agency and the resource provider requires the government science agency to report back at each stage. Each of these stages constitutes a specified activity and revenue would be recognized when (or as) they are completed and for the amount incurred in completing that specified action. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to deliver the specified activity, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG89. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the compliance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the promises to use resources in the specified manner. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a compliance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the resource provider that are not included in the measurement of the output.

AG90. As a practical expedient for compliance obligations where the entity is required to transfer a distinct good or service to an external party, if an entity has a right to consideration from a resource provider in an amount that corresponds directly with the value to the resource provider of the entity's compliance obligations completed to date (for example, a binding arrangement to render or provide a service in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

AG91. The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary.

Input Methods

AG92. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labor hours expended, eligible expenditures incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that compliance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognize revenue on a straight-line basis.

AG93. An eligible expenditure is a transfer of resources incurred in accordance with the requirements set out in a binding arrangement. A binding arrangement may require an entity to use resources for a particular purpose, such as to further the entity's objectives, and incur eligible expenditure for that purpose, but does not have an identifiable specified activity. For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures. The enforceability of the binding arrangement enables the resource provider to require the entity to use resources to incur the eligible expenditure, or face consequences stated in the binding arrangement for non-compliance (such as the return of resources, or another form of redress).

AG94. The resource provider needs to be able to confirm that the entity's compliance obligations in the binding arrangement have been satisfied in the specified manner. Therefore, the entity needs to keep appropriate documentation to show that the inputs, such as any eligible expenditures, were incurred by the entity and directly related to the entity's satisfaction of the promises in the specified manner.

AG95. A shortcoming of input methods is that there may not be a direct relationship between an entity's inputs and the satisfaction of its compliance obligation. Therefore, an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 98, do not depict the entity's performance in satisfying its compliance obligations. For instance, when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

(a) When a cost incurred does not contribute to an entity's progress in satisfying the compliance obligation. For example, an entity would not recognize revenue on the basis of costs incurred that are attributable to significant inefficiencies in the entity's performance that were not reflected in the transaction consideration of the binding arrangement (for example, the costs of unexpected amounts of wasted materials, labor or other resources that were incurred to satisfy the compliance obligation).

(b) When a cost incurred is not proportionate to the entity's progress in satisfying the compliance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred. For example, a faithful depiction of an entity's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a compliance obligation if the entity expects at the inception of the binding arrangement that all of the following conditions would be met:

(i) The good is not distinct;

(ii) The party receiving the good or service is expected to obtain control of the good significantly before receiving services related to the good;

(iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the compliance obligation; and

(iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal in accordance with paragraphs AG117–AG125).

Right of Return for a Transfer of Goods or Services to Another Party (paragraph 118)

AG96. In some binding arrangements, an entity transfers control of a product to a resource provider and also grants the resource provider the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

(a) A full or partial refund of any consideration paid;

(b) A credit that can be applied against amounts owed, or that will be owed, to the entity; and

(c) Another product in exchange.

AG97. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognize all of the following:

(a) Revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned);

(b) A refund liability; and

(c) An asset (and corresponding adjustment to cost of sales) for its right to recover products from resource providers on settling the refund liability.

AG98. An entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a compliance obligation in addition to the obligation to provide a refund.

AG99. An entity shall apply the requirements in paragraphs 109–122 (including the requirements for constraining measurement in paragraphs 119–121) to determine the amount of consideration to which the entity expects to be entitled. In transactions where the binding arrangement requires an entity to transfer distinct goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary), this amount would exclude the products expected to be returned. For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognize revenue but shall recognize those amounts received (or receivable) as a refund liability. Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled for satisfying its compliance obligations in the binding arrangement and make a corresponding change to the transaction consideration and, therefore, in the amount of revenue recognized.

AG100. An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognize corresponding adjustments as revenue (or reductions of revenue).

AG101. An asset recognized for an entity's right to recover products from a resource provider on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, an entity shall update the measurement of the asset arising from changes in expectations about products to be returned. An entity shall present the asset separately from the refund liability.

AG102. Exchanges by resource providers of one product for another of the same type, quality, condition and price (for example, one color or size for another) are not considered returns for the purposes of applying this Standard.

AG103. Binding arrangements in which a resource provider may return a defective product in exchange for a functioning product shall be evaluated in accordance with the guidance on warranties in paragraphs AG111–AG116.

Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party (paragraph (e))

AG104. Consideration payable to a resource provider includes cash amounts that an entity pays, or expects to pay, to the resource provider (or to other parties that purchase the entity's goods or services from the resource provider). Consideration payable to a resource provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the resource provider). An entity shall account for consideration payable to a resource provider as a reduction of the transaction consideration and, therefore, of revenue unless the payment to the resource provider is in exchange for a distinct good or service (as described in paragraphs 73–77) that the resource provider transfers to the entity. If the consideration payable to a resource provider includes a variable amount, an entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 113–121.

AG105. If consideration payable to a resource provider is a payment for a distinct good or service from the resource provider, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the resource provider exceeds the current value of the distinct good or service that the entity receives from the resource provider, then the entity shall account for such an excess as a reduction of the transaction consideration. If the entity cannot reasonably estimate the current value of the good or service received from the resource provider, it shall account for all of the consideration payable to the resource provider as a reduction of the transaction consideration.

AG106. Accordingly, if consideration payable to a resource provider is accounted for as a reduction of the transaction consideration, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

(a) The entity recognizes revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and

(b) The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary practices.

Allocation of a Discount for a Transfer of Goods or Services to Another Party (paragraph 134)

AG107. A resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone values of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when an entity has observable evidence in accordance with paragraph AG108 that the entire discount relates to only one or more, but not all, compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction consideration to each compliance obligation on the basis of the relative stand-alone values of the underlying distinct goods or services.

AG108. An entity shall allocate a discount entirely to one or more, but not all, compliance obligations in the binding arrangement if all of the following criteria are met:

(a) The entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis;

(b) The entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone values of the goods or services in each bundle; and

(c) The discount attributable to each bundle of goods or services described in paragraph AG108(b) is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides observable evidence of the compliance obligation (or compliance obligations) to which the entire discount in the binding arrangement belongs.

AG109. If a discount is allocated entirely to one or more compliance obligations in the binding arrangement in accordance with paragraph AG108, an entity shall allocate the discount before using the residual approach to estimate the stand-alone value of a good or service in accordance with paragraph (c).

Determination of the Stand-Alone Value (paragraphs 137–140)

AG110. In the public sector, the determination of a stand-alone value for a compliance obligation in accordance with paragraph 137 may be challenging, particularly in situations where an entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone value is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone value of the goods or services cannot be estimated from market information, the entity estimates the stand-alone value using the expected cost approach, as noted in paragraph (b).

Warranties for Goods or Services Transferred to Another Party

AG111. In binding arrangements where the entity provides distinct goods or services to another party, it is common for an entity to provide (in accordance with the binding arrangement, the law or the entity's customary practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a

warranty can vary significantly across sectors and binding arrangements. Some warranties provide a resource provider with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the resource provider with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG112. If a resource provider has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the purchaser or third-party beneficiary in addition to the product that has the functionality described in the binding arrangement. In those circumstances, an entity shall account for the promised warranty as a compliance obligation in accordance with paragraphs 68–77 and allocate a portion of the transaction consideration to that compliance obligation in accordance with paragraphs 133–143.

AG113. If a resource provider does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty, or a part of the promised warranty, provides the purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications.

AG114. In assessing whether a warranty provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity shall consider factors such as:

(a) Whether the warranty is required by law – if the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a compliance obligation because such requirements typically exist to protect resource providers from the risk of purchasing defective products.

(b) The length of the warranty coverage period – the longer the coverage period, the more likely it is that the promised warranty is a compliance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

(c) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a compliance obligation.

AG115. If a warranty, or a part of a warranty, provides a purchaser or third-party beneficiary with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a compliance obligation. Therefore, an entity shall allocate the transaction consideration to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single compliance obligation.

AG116. A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a compliance obligation. For example, a manufacturer such as a government medical laboratory might sell products such as diagnostic ultrasound scanners to both government-owned and privately-owned medical centers and hospitals in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a purchaser or third-party beneficiary using a product for its intended purpose. Similarly, an entity's promise to indemnify the resource provider for liabilities and damages arising from claims of patent, copyright, trademark or other infringement by the entity's products does not give rise to a compliance obligation. The entity shall account for such obligations in accordance with IPSAS 19.

Principal versus Agent Considerations

AG117. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the entity shall determine whether the nature of its promise is a compliance obligation to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser or third-party beneficiary. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary (see paragraphs 73–77 and AG53–AG56). If a binding arrangement with a resource provider includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

AG118. To determine the nature of its promise (as described in paragraph AG117), the entity shall:

(a) Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party (see paragraph AG51)); and

(b) Assess whether it controls (as described in paragraph 90) each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

AG119. An entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. An entity that is a principal may satisfy its compliance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the compliance obligation on its behalf.

AG120. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, an entity that is a principal obtains control of any one of the following:

(a) A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary.

(b) A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the entity's behalf.

(c) A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For example, if an entity provides a significant service of integrating goods or services (see paragraph (a)) provided by another party into the specified good or service for which the resource provider has entered into a binding arrangement, the entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

AG121. When (or as) an entity that is a principal satisfies a compliance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

AG122. An entity is an agent if the entity's compliance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) an entity that is an agent satisfies a compliance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods

or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

AG123. Indicators that an entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal (see paragraph AG119)) include, but are not limited to, the following:

(a) The entity is primarily responsible for satisfying the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting resource provider specifications). If the entity is primarily responsible for satisfying the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

(b) The entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the resource provider (for example, if the resource provider has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a resource provider, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.

(c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the resource provider pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

AG124. The indicators in paragraph AG123 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.

AG125. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance obligation to transfer the specified good or service to the purchaser or third-party beneficiary (i.e., the entity is no longer acting as the principal), the entity shall not recognize revenue for that compliance obligation. Instead, the entity shall evaluate whether to recognize revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Resource Provider Options for Additional Goods or Services

AG126. Resource provider options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, resource provider award credits (or points), renewal options in a binding arrangement or other discounts on future goods or services.

AG127. If, in a binding arrangement, an entity grants a resource provider the option to acquire additional goods or services, that option gives rise to a compliance obligation in the binding arrangement only if the option provides a material right to the resource provider that it would not receive without entering into that binding arrangement (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of resource provider in that geographical area or market). If the option provides

a material right to the resource provider, the resource provider in effect pays the entity in advance for future goods or services and the entity recognizes revenue when those future goods or services are transferred or when the option expires.

AG128. If a resource provider has the option to acquire an additional good or service at a price that would reflect the stand-alone value for that good or service, that option does not provide the resource provider with a material right even if the option can be exercised only by entering into a previous binding arrangement. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the resource provider exercises the option to purchase the additional goods or services.

AG129. Paragraph 134 requires an entity to allocate the transaction consideration to compliance obligations on a relative stand-alone value basis. If the stand-alone value for a resource provider's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the resource provider would obtain when exercising the option, adjusted for both of the following:

(a) Any discount that the resource provider could receive without exercising the option; and

(b) The likelihood that the option will be exercised.

AG130. If a resource provider has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the binding arrangement and are provided in accordance with the terms of the original binding arrangement, then an entity may, as a practical alternative to estimating the stand-alone value of the option, allocate the transaction consideration to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for renewals of a binding arrangement.

Resource Providers' Unexercised Rights

AG131. In accordance with paragraph 163, upon receipt of a prepayment from a resource provider, an entity shall recognize a binding arrangement liability in the amount of the prepayment for its compliance obligation. An entity shall derecognize its binding arrangement liability (and recognize revenue) when it satisfies the compliance obligation associated with the consideration previously received from the resource provider.

AG132. A resource provider's non-refundable prepayment to an entity gives the resource provider a right to have the resource recipient satisfy its obligations (or face consequences outlined in the binding arrangement). However, resource providers may not exercise all of their rights in the binding arrangement. Those unexercised rights are often referred to as breakage.

AG133. If an entity expects to be entitled to a breakage amount in a binding arrangement liability, the entity shall recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the resource provider. If an entity does not expect to be entitled to a breakage amount, the entity shall recognize the expected breakage amount as revenue when the likelihood of the resource provider exercising its remaining rights becomes remote. To determine whether an entity expects to be entitled to a breakage amount, the entity shall consider the requirements in paragraphs 119–121 on constraining estimates of variable consideration.

AG134. An entity shall recognize a liability (and not revenue) for any consideration received that is attributable to a resource provider's unexercised rights for which the entity is required to remit to another party, for example, a government entity in accordance with applicable unclaimed property laws.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

AG135. In some binding arrangements, an entity charges a resource provider a non-refundable upfront fee at or near the inception of the binding arrangement. Examples include joining fees for a healthcare membership,

activation fees from telecommunication companies, setup fees for some services and initial fees for some supplies.

AG136. To identify compliance obligations in such binding arrangements, an entity shall assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near the inception of the binding arrangement to satisfy the binding arrangement, that activity does not result in the transfer of a promised good or service to the purchaser or third-party beneficiary (see paragraph 72). Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial period of the binding arrangement if the entity grants the resource provider the option to renew the binding arrangement and that option provides the resource provider with a material right as described in paragraph AG127.

AG137. If the non-refundable upfront fee relates to a good or service, the entity shall evaluate whether to account for the good or service as a separate compliance obligation in accordance with paragraphs 68–77.

AG138. An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a binding arrangement (or other administrative tasks as described in paragraph 72). If those setup activities do not satisfy a compliance obligation, the entity shall disregard those activities (and related costs) when measuring progress in accordance with paragraph AG95. That is because the costs of setup activities do not depict the transfer of services to a purchaser or third-party beneficiary. The entity shall assess whether costs incurred in setting up a binding arrangement have resulted in an asset that shall be recognized in accordance with paragraph 152.

Application of Principles to Specific Transactions

AG139. Public sector entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph AG143, an entity shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Capital Transfers

AG140. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes at least one compliance obligation on the entity.

AG141. An entity shall recognize revenue as it satisfies its compliance obligations in its capital transfer transaction by applying paragraphs 87–104. An entity shall separately determine whether any inflow of resources from a capital transfer is to be recognized as an asset by applying paragraph 80, and whether its compliance obligation is to be recognized as a liability by applying paragraphs 81–86. The carrying amount of any such liability is reduced as revenue is recognized.

AG142. Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition. The entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once acquired or constructed. Any compliance obligations related to the operation of the asset would be accounted for in accordance with the requirements of this Standard.

Services In-Kind

AG143. An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

AG144. Although recognition of services in-kind is not required by this Standard, entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations.

AG145. Services in-kind are services provided by individuals to public sector entities for no consideration. Some services in-kind meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

AG146. Public sector entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

(a) Technical assistance from other governments or international organizations;

(b) Persons convicted of offenses may be required to perform community service for a public sector entity;

(c) Public hospitals may receive the services of volunteers;

(d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) Local governments may receive the services of volunteer fire fighters.

AG147. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph AG146, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

AG148. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 175, however, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.

AG149. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition.

In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

AG150. Pledges are unenforceable promises to transfer assets to the entity in the future. Pledges do not meet the definition of an asset, because the entity is unable to control the access of the resource provider to the future economic benefits or service potential embodied in the item pledged. Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the entity, it is recognized as a gift or donation, in accordance with paragraphs AG164–AG167. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

AG151. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts. This liability (advance receipt) may be recognized as a liability (deferred revenue), in accordance with paragraphs 81–86, when the event that makes the transfer arrangement binding occurs, and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

Concessionary Loans

AG152. Concessionary loans are loans received by an entity at below-market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with IPSAS 41. An entity considers whether any difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue that should be accounted for in accordance with this Standard.

AG153. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognizes the difference as revenue, except if a compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the entity result in a compliance obligation. Where a compliance obligation exists, the entity considers if it gives rise to the existence and recognition of a liability. As the entity satisfies the compliance obligation, the liability is reduced and an equal amount of revenue is recognized.

Concessionary Leases for Lessees

AG153A. Concessionary leases are leases received by a lessee at below-market terms. The portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43, *Leases*. A lessee considers whether any difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue that should be accounted for in accordance with this Standard.

AG153B. Where a lessee determines that the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue, a lessee recognizes the difference as revenue, except if a compliance obligation exists. Where a compliance obligation exists, the lessee considers if it gives rise to the existence and recognition of a liability. As the lessee satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognized.

Measurement of Transferred Assets

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity receives consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

(a) Assets such as inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date;

(b) Property, plant, and equipment assets acquired through revenue transactions are to be measured at their deemed cost as at the acquisition date. The primary objective for which an entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost (where such assets held for their operational capacity are measured at current operational value, and assets held for their financial capacity are measured at fair value);

(c) Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument are to be measured at their transaction consideration as at the acquisition date in accordance with paragraph 109 and the appropriate accounting policy; and

(d) Right-of-use assets held by a lessee acquired through concessionary leases are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with IPSAS 43.

Debt Forgiveness and Assumptions of Liabilities

AG155. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In circumstances when a creditor forgives a liability, the local government decreases the carrying amount of the existing liability and recognizes an increase in net assets.

AG156. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

AG157. Where a controlling entity forgives debt owed by a wholly-owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs AG7–AG9.

AG158. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

AG159. Fines are economic benefits or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws and/or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

AG160. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 18. As noted in paragraph 5, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

AG161. A bequest is a transfer of resources made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws and/or regulations of the jurisdiction.

AG162. Bequests that satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the transaction consideration of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

AG163. The transaction consideration of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph AG166. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the transaction consideration of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the transaction consideration of the resources received or receivable.

Gifts and Donations, including Goods In-kind

AG164. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements. The resource provider may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. The making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits or service potential flowing to the entity.

AG165. Goods in-kind are tangible assets transferred to an entity in a transaction that do not require a transfer of distinct goods or services to an external party but may be subject to certain obligations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

AG166. Recognition of gifts or donations of services in-kind are addressed in paragraphs AG143–AG149. Gifts and donations other than services in-kind and goods in-kind are recognized as assets in accordance with paragraphs 18–25, and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.

AG167. On initial recognition, gifts and donations (including goods in-kind) are measured at their transaction consideration as at the acquisition date, in accordance with paragraph 30.

Licensing

AG168. A license establishes a resource provider's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, licenses of any of the following:

(a) Software and technology;

(b) Motion pictures, music and other forms of media and entertainment;

(c) Franchises; and

(d) Patents, trademarks and copyrights.

AG169. In addition to a promise to grant a license (or licenses) to a resource provider, an entity may also promise to transfer other goods or services to the purchaser or third-party beneficiary. Those promises may be explicitly stated in the binding arrangement or implied by an entity's customary practices, published policies or specific statements (see paragraph 71). As with other types of binding arrangements, when a binding arrangement with a resource provider includes a promise to grant a license (or licenses) in addition to other promised goods or services, an entity applies paragraphs 68–77 to identify each of the compliance obligations in the binding arrangement.

AG170. If the promise to grant a license is not distinct from other promised goods or services in the binding arrangement in accordance with paragraphs 73–77, an entity shall account for the promise to grant a license and those other promised goods or services together as a single compliance obligation. Examples of licenses that are not distinct from other goods or services promised in the binding arrangement include the following:

(a) A license that forms a component of a tangible good and that is integral to the functionality of the good; and

(b) A license that the purchaser or third-party beneficiary can generate economic benefits or service potential from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a license, the purchaser or third-party beneficiary to access content).

AG171. If the license is not distinct, an entity shall apply paragraphs 87–97 to determine whether the compliance obligation (which includes the promised license) is a compliance obligation that is satisfied over time or satisfied at a point in time.

AG172. If the promise to grant the license is distinct from the other promised goods or services in the binding arrangement and, therefore, the promise to grant the license is a separate compliance obligation, an entity shall determine whether the license transfers to a purchaser or third-party beneficiary either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the license to a purchaser or third-party beneficiary is to provide the resource provider with either:

(a) A right to access the entity's intellectual property as it exists throughout the license period; or

(b) A right to use the entity's intellectual property as it exists at the point in time at which the license is granted.

Determining the Nature of the Entity's Promise

AG173. The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

(a) The binding arrangement requires, or the resource provider reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the resource provider has rights (see paragraphs AG174–AG175);

(b) The rights granted by the license directly expose the purchaser or third-party beneficiary to any positive or negative effects of the entity's activities identified in paragraph AG173(a); and

(c) Those activities do not result in the transfer of a good or a service to the purchaser or third-party beneficiary as those activities occur (see paragraph 72).

AG174. Factors that may indicate that a resource provider could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the resource provider related to the intellectual

property to which the resource provider has rights may also indicate that the resource provider could reasonably expect that the entity will undertake such activities.

AG175. An entity's activities significantly affect the intellectual property to which the resource provider has rights when either:

(a) Those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

(b) The ability of the resource provider to obtain economic benefits or service potential from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the economic benefits or service potential from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

AG176. Accordingly, if the intellectual property to which the resource provider has rights has significant stand-alone functionality, a substantial portion of the economic benefits or service potential of that intellectual property is derived from that functionality. Consequently, the ability of the purchaser or third-party beneficiary to obtain economic benefits or service potential from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

AG177. If the criteria in paragraph AG173 are met, an entity shall account for the promise to grant a license as a compliance obligation satisfied over time because the purchaser or third-party beneficiary will simultaneously receive and consume the economic benefits or service potential from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph (a)). An entity shall apply paragraphs 98–104 to select an appropriate method to measure its progress towards complete satisfaction of that compliance obligation to provide access.

AG178. If the criteria in paragraph AG173 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the resource provider. This means that the resource provider can direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the license at the point in time at which the license transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a compliance obligation satisfied at a point in time. An entity shall apply paragraph 97 to determine the point in time at which the license transfers to the purchaser or third-party beneficiary. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the purchaser or third-party beneficiary is able to use and to derive the economic benefits or service potential from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the purchaser or third-party beneficiary a code that enables the purchaser or third-party beneficiary to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

AG179. An entity shall disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

(a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised license, rather than define whether the entity satisfies its compliance obligation at a point in time or over time.

(b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use—a promise to defend a patent right is not a compliance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and

provides assurance to the resource provider that the license transferred meets the specifications of the license promised in the binding arrangement.

Sales-Based or Usage-Based Royalties

AG180. Notwithstanding the requirements in paragraphs 119–121, an entity shall recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

(a) The subsequent sale or usage occurs; and

(b) The compliance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

AG181. The requirement for a sales-based or usage-based royalty in paragraph AG180 applies when the royalty relates only to a license of intellectual property or when a license of intellectual property is the predominant item to which the royalty relates (for example, the license of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the resource provider would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).

AG182. When the requirement in paragraph AG181 is met, revenue from a sales-based or usage-based royalty shall be recognized wholly in accordance with paragraph AG180. When the requirement in paragraph AG181 is not met, the requirements on variable consideration in paragraphs 113–122 apply to the sales-based or usage-based royalty.

Repurchase Agreements

AG183. When evaluating whether an entity transfers control of an asset to the purchaser or an identified third-party beneficiary, an entity shall consider any agreement to repurchase the asset.

AG184. A repurchase agreement is a binding arrangement in which an entity provides an asset and also promises or has the option (either in the same binding arrangement or in another binding arrangement) to repurchase the asset. The repurchased asset may be the asset that was originally provided to the resource provider, an asset that is substantially the same as that asset, or another asset of which the asset that was originally provided is a component.

AG185. Repurchase agreements generally come in three forms:

(a) An entity's obligation to repurchase the asset (a forward);

(b) An entity's right to repurchase the asset (a call option); and

(c) An entity's obligation to repurchase the asset at the resource provider's request (a put option).

A Forward or a Call Option

AG186. If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a resource provider does not obtain control of the asset because the resource provider is limited in its ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset even though the purchaser or third-party beneficiary may have physical possession of the asset. Consequently, the entity shall account for the binding arrangement as either of the following:

(a) A lease in accordance with IPSAS 43, *Leases*, if the entity can or must repurchase the asset for an amount that is less than the original price of the asset; or

(b) A financing arrangement in accordance with paragraph AG188 if the entity can or must repurchase the asset for an amount that is equal to or more than the original price of the asset.

AG187. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG188. If the repurchase agreement is a financing arrangement, the entity shall continue to recognize the asset and also recognize a financial liability for any consideration received from the resource provider. The entity shall recognize the difference between the amount of consideration received from the resource provider and the amount of consideration to be paid to the resource provider as interest and, if applicable, as processing or holding costs (for example, insurance).

AG189. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

A Put Option

AG190. If an entity has an obligation to repurchase the asset at the resource provider's request (a put option) at a price that is lower than the original price of the asset, the entity shall consider at the inception of the binding arrangement whether the resource provider has a significant economic incentive to exercise that right. The resource provider's exercising of that right results in the resource provider effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the resource provider has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IPSAS 43.

AG191. To determine whether a resource provider has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the resource provider has a significant economic incentive to exercise the put option.

AG192. If the resource provider does not have a significant economic incentive to exercise its right at a price that is lower than the original price of the asset, the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG193. If the repurchase price of the asset is equal to or greater than the original price and is more than the expected market value of the asset, the binding arrangement is in effect a financing arrangement and, therefore, shall be accounted for as described in paragraph AG188.

AG194. If the repurchase price of the asset is equal to or greater than the original price and is less than or equal to the expected market value of the asset, and the resource provider does not have a significant economic incentive to exercise its right, then the entity shall account for the agreement as if it were the sale of a product with a right of return as described in paragraphs AG96–AG103.

AG195. When comparing the repurchase price with the price, an entity shall consider the time value of money.

AG196. If the option lapses unexercised, an entity shall derecognize the liability and recognize revenue.

Consignment Arrangements

AG197. When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end purchasers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

AG198. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

(a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a resource provider of the dealer or until a specified period expires;

(b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and

(c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Bill-and-Hold Arrangements

AG199. A bill-and-hold arrangement is a binding arrangement under which an entity bills a resource provider for a product, but the entity retains physical possession of the product until it is transferred to the purchaser or third-party beneficiary at a point in time in the future. For example, a purchaser may request an entity to enter into such a binding arrangement because of the resource provider's lack of available space for the product or because of delays in the resource provider's production schedules.

AG200. An entity shall determine when it has satisfied its compliance obligation to transfer a product by evaluating when a resource provider obtains control of that product (see paragraph 97). For some binding arrangements, control is transferred either when the product is delivered to the purchaser or third-party beneficiary's site or when the product is shipped, depending on the terms of the binding arrangement (including delivery and shipping terms). However, for some binding arrangements, a resource provider may obtain control of a product even though that product remains in an entity's physical possession. In that case, the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the resource provider over the resource provider's asset.

AG201. In addition to applying the requirements in paragraph 97, for a resource provider to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) The reason for the bill-and-hold arrangement must be substantive (for example, the resource provider has requested the arrangement);

(b) The product must be identified separately as belonging to the resource provider;

(c) The product currently must be ready for physical transfer to the purchaser or third-party beneficiary; and

(d) The entity cannot have the ability to use the product or to direct it to another resource provider.

AG202. If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity shall consider whether it has remaining compliance obligations (for example, for custodial services) in accordance with paragraphs 68–77 to which the entity shall allocate a portion of the transaction consideration in accordance with paragraphs 133–143.

Right-of-Use Assets In-kind

Identification

AG202A. Right-of-use assets in-kind are right-of-use assets received without consideration. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10–12 and AG10–AG34 of IPSAS 43 for identifying a lease, with the necessary adaptations in the absence of payments.

AG202B. Right-of-use assets in-kind are transfers of assets that one entity makes to another entity subject to certain obligations. The resource provider may be an entity or an individual.

Recognition

AG202C. Right-of-use assets in-kind are recognized as assets in accordance with IPSAS 16 or IPSAS 45 if they meet the definition of investment property, or property, plant, and equipment, respectively. The timing of revenue recognition depends on the fulfillment of the compliance obligations.

Measurement

AG202D. On initial recognition, right-of-use assets in-kind are measured at the present value of payments at market rates based on the current use of the underlying asset in accordance with paragraphs 26A and 26B of IPSAS 43. If payments for the right-of-use assets in-kind at market rates based on the current use of the underlying asset are not readily available, the right-of-use assets in-kind shall be measured in accordance with paragraphs 24–26 of IPSAS 43.

AG202E. After initial recognition, an entity shall subsequently measure right-of-use assets in-kind in accordance with paragraphs 30–36 of IPSAS 43 for right-of-use assets.

Presentation

Display

AG202F. An entity shall display in the statement of financial position, or disclose in the notes to the general purpose financial statements right-of-use assets in-kind separately from other assets. If an entity does not display right-of-use assets in-kind separately in the statement of financial position, the entity shall:

(a) Include right-of-use assets in-kind within the same line item as either:

(i) The corresponding underlying assets presented if they were owned; or

(ii) Other right-of-use assets; and

(b) Disclose which line items in the statement of financial position include those right-of-use assets in-kind.

Disclosure

AG202G. An entity shall disclose in the notes to the general purpose financial statements the nature and type of major classes of right-of-use assets in-kind, showing separately major classes of right-of-use assets in-kind received.

AG202H. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:

(a) Depreciation charge for right-of-use assets in-kind by class of underlying asset; and

(b) Carrying amount at the end of the reporting period by class of underlying asset.

AG202I. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in paragraph AG202H for those right-of-use assets in-kind.

AG202J. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 45, an entity shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of-use assets in-kind.

Disclosure (paragraphs 167–193)

AG203. An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

AG204. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

Disclosure of Disaggregated Revenue (paragraphs 179–180)

AG205. Paragraph 179 requires an entity to disaggregate revenue from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's binding arrangements. Some entities may need to use more than one type of category to meet the objective in paragraph 179 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.

AG206. When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:

(a) Disclosures presented outside the financial statements (for example, in press releases, annual reports or stakeholder presentations);

(b) Information regularly reviewed for evaluating the financial performance of segments; and

(c) Other information that is similar to the types of information identified in paragraphs AG206(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

AG207. Examples of categories that might be appropriate include, but are not limited to, the following:

(a) Type of compliance obligation;

(b) Geographical region (for example, country or region);

(c) Market or type of purchaser resource provider (for example, government and non-government resource providers);

(d) Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements);

(e) Duration of the binding arrangement (for example, short-term and long-term binding arrangements);

(f) Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time);

(g) Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and

(h) Revenue earned from the provision of goods or services to third-party beneficiaries.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 47.

Introduction

BC1. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006 and was developed to provide guidance on how to account for revenue that arose from non-exchange transactions, which account for a large proportion of public sector revenue. The issuance of IPSAS 23 completed the suite of revenue standards, together with IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Constructions Contracts* which were both issued in July 2001. IPSAS 9 and IPSAS 11 were based on IAS 18, *Revenue* and IAS 11, *Constructions Contracts*, respectively, which were both issued by the International Accounting Standards Board (IASB).

BC2. Since IPSAS 23 became applicable, the IPSASB became aware of constituents' concerns regarding the application of the Standard, in particular:

(a) Difficulty in making the distinction between exchange and non-exchange transactions;

(b) Difficulty in making the distinction between a condition and a restriction;

(c) Lack of guidance on multi-year funding arrangements;

(d) Lack of guidance on taxation received in advance of the period in which it is intended to be used;

(e) Lack of guidance on accounting for capital grants; and

(f) Lack of guidance on accounting for services in-kind.

BC3. In May 2014, the IASB published the final version of IFRS 15, *Revenue from Contracts with Customers*, which provides a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC-31, *Revenue—Barter Transactions Involving Advertising Services*.

BC4. In 2015, the IPSASB commenced work on a project to update IPSAS that dealt with accounting for revenue as part of the IPSASB's alignment program which aims to align IPSAS with IFRS® Standards. In August 2017, the IPSASB issued Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*. In addition to potential alignment with IFRS 15, the CP also gave the IPSASB an opportunity to re-evaluate and address some of the application issues with the guidance for non-exchange revenue transactions in IPSAS 23. In particular, the IPSASB considered the question of whether accounting approaches based on whether a revenue transaction is with or without performance obligations are more appropriate than distinguishing between exchange and non-exchange transactions. Based on this new thinking, the CP classified public sector revenue transactions into the following categories:

(a) Transactions with no performance obligations or stipulations. Under the current framework in IPSAS 23[8], revenue transactions with stipulations involved the transfer of assets to a resource recipient with the expectation and/or understanding that they will be used in a particular way and, therefore, that the resource recipient entity will act or perform in a particular way;

[8] IPSAS 23 included the concept of stipulations, which are terms in laws or regulations, or a binding arrangement, that are imposed on the use of a transferred asset. Stipulations may be in the form of conditions (stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be (1) consumed by the recipient as specified, or (2) returned to the transferor), or restrictions (stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified).

(b) Transactions with stipulations, as described in IPSAS 23, that do not meet all the requirements of IFRS 15; and

(c) Transactions that meet all the requirements of IFRS 15 that involve the transfer of promised goods or services to customers and arise from a contract with a customer which establishes performance obligations.

BC5. The majority of CP respondents agreed that there are different types of revenues in the public sector, and supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of stipulations, which could be in the form of restrictions or conditions, in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice.

Development of Exposure Draft (ED) 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations

BC6. Based on responses to the CP and subsequent discussions, the IPSASB decided to move away from the exchange/non-exchange distinction and develop accounting approaches based on whether the transaction is with or without performance obligations.

BC7. The accounting approaches were presented in two revenue Exposure Drafts (EDs), ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*. The issuance of two separate EDs enabled the IPSASB to explicitly demonstrate IFRS alignment and maintain the existing allocation of guidance for different revenue transaction types:

(a) ED 70 presented guidance for exchange-type transactions, akin to those in the private sector, and is based on the requirements of IFRS 15, modified as appropriate for public sector entities and to reflect the requirements of other IPSAS. ED 70 would replace IPSAS 9 and IPSAS 11, which were principally based on IAS 18 and IAS 11 respectively; and

(b) ED 71 presented guidance for non-exchange-type transactions, which are the majority of transactions in the public sector. ED 71 would replace IPSAS 23.

BC8. In developing the proposed Standards, the IPSASB:

(a) Considered the guidance on revenue in the *Government Finance Statistics Manual 2014 (GFSM 2014)* with the aim of avoiding unnecessary differences;

(b) Considered guidance developed by national standard setters and bodies with oversight responsibilities for public sector entities in developing additional examples that illustrated the public sector environment;

(c) Considered the aspects of IPSAS 9 and IPSAS 11 that had been developed specifically to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard;

(d) Made changes to aspects of IPSAS 23 to address the concerns noted by constituents[9];

(e) Applied its *Process for Reviewing and Modifying IASB Documents*. Modifications to IFRS 15 were made in circumstances where public sector issues were identified that warranted a departure. As part of its development process, the IPSASB debated a number of issues and whether departure was justified; and

(f) Agreed to retain the existing text of IFRS 15 wherever consistent with existing IPSAS and made the following modifications:

[9] As a result, Basis for Conclusions paragraphs from IPSAS 23 that relate to retained IPSAS 23 text have been incorporated.

(i) Changes to the definitions and terminology in IFRS 15 to ensure consistency with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework), consistency with definitions and terminology in existing IPSAS, and to reflect the public sector;

(ii) Addition of application guidance on public sector-specific issues or issues which may be more prevalent in the public sector;

(iii) "Amendments to Other Standards" in IFRS 15 were replaced with "Amendments to Other IPSAS" to reflect IPSAS literature. Where applicable, references to other specific IFRS Standards were also amended to reflect references to the corresponding IPSAS;

(iv) Deletion of illustrative examples which had limited or no applicability to the public sector; and

(v) Modification of IFRS 15 examples to reflect the public sector context, as well as the addition of public sector-specific examples to assist with the application of ED 70.

BC9. In February 2020, the IPSASB published ED 70 and ED 71, together with ED 72, *Transfer Expenses*. The three exposure drafts were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 70 and ED 71

BC10. The IPSASB received a broad and diverse set of comment letters in response to ED 70, ED 71, and ED 72, respectively. During its review of ED responses, the IPSASB noted that, overall, the comments did not point to substantial concerns about the revenue accounting principles; rather, the responses generally encouraged clarifications of and additional guidance for the accounting principles, and further consideration on the structure and flow of guidance, to support application in practice.

BC11. The IPSASB also noted that constituents continued to support that there are different types of revenues in the public sector, and different transactions may warrant separate accounting principles. The IPSASB considered feedback from the CP and ED processes together and acknowledged that, while the exchange/non-exchange distinction is considered difficult to apply in practice for the purposes of classifying and accounting for revenue, the distinction still exists as an underlying economic concept. Put differently, while the IPSASB decided to move away from using exchange/non-exchange as defined terms to classify revenue, it remains an appropriate concept to describe the economic substance of transactions in the public sector.

BC12. Some ED respondents noted that it was difficult to determine the applicable ED for their revenue transactions, and sought clarity on the interrelation between ED 70 and ED 71, and the application of the proposed standards in practice. Some of this confusion was attributed to the distinction between performance obligations and present obligations, which are in the scope of ED 70 or ED 71, respectively.

Discussion with the IPSASB Consultative Advisory Group (CAG)

BC13. The IPSASB consulted the CAG at its December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 70 and ED 71

BC14. In light of the responses to ED 70 and ED 71, the IPSASB decided to revisit its decisions on the proposed structure of revenue guidance and how it can better clarify the proposed accounting principles and related disclosure requirements for revenue transactions in the public sector. Key changes include:

(a) Retaining binding arrangement as a fundamental concept for revenue accounting, which dictates the applicable accounting model (paragraphs BC15–BC17);

(b) Presenting accounting guidance for revenue transactions in a single IPSAS, to more clearly communicate the prevalence of revenue types in the public sector and the fundamental concepts for revenue accounting (paragraphs BC18–BC19); and

(c) Using a single concept, compliance obligation, for an entity's legally binding obligation arising from a binding arrangement (paragraphs BC20–BC30).

The Concept of a Binding Arrangement

BC15. The majority of respondents to ED 70 and ED 71 supported the use and concept of binding arrangements in the public sector. Considering constituent comments, the IPSASB also noted that while revenue without performance obligations and revenue with performance obligations differ in economic substance, the latter is expected to be a very small subset of public sector transactions and the existence of a binding arrangement is of greater importance in revenue accounting. Thus, the IPSASB decided to retain the concept of a binding arrangement as a fundamental concept for revenue accounting.

BC16. The IPSASB also confirmed that enforceability is an integral component of a binding arrangement, and the specific details within binding arrangements would clearly specify each party's rights and obligations (i.e., what each party is held accountable to satisfy, and how they will be held accountable). The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of transactions with binding arrangements compared to transactions without binding arrangements. The IPSASB also clarified that enforceability can arise from various mechanisms, as long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations, by imposing consequences on parties that do not satisfy their obligations.

BC17. The focus on assessing the ability to enforce a binding arrangement is integral for the overall goal of better public financial management. From the broader public financial management perspective, the purpose and intention of enforceable transactions, such as binding arrangements, is to allow the parties in the arrangement to achieve specific objectives. The ability to enforce these arrangements ensures that an entity is held accountable and is able to hold other engaged parties accountable, thereby facilitating strong public financial management. Appropriate reporting and disclosure of information related to these arrangements enables public sector entities to be transparent to their constituents.

One Revenue IPSAS

BC18. Based on its review of constituent concerns, discussions on key revenue accounting concepts and principles, and subsequent analysis of presentation options, the IPSASB decided to restructure and present the accounting guidance, previously proposed in ED 70 and ED 71, as a single standard that:

(a) Is titled "*Revenue*", with clear structure and references, which presents a single source of guidance for all public sector revenues;

(b) Requires an entity to consider up front whether the transaction is without or with a binding arrangement, based on its conclusion in BC15; and

(c) Has separate guidance for revenue without binding arrangements, and revenue with binding arrangements.

BC19. The IPSASB concluded that this revised structure and presentation would better reflect the prevalence of public sector revenues, with guidance related to the majority of public sector revenues presented first, and overall be more appropriate from a public sector perspective.

Compliance Obligation

BC20. The IPSASB noted that most respondents to ED 70 and ED 71 acknowledged that there are separate types of revenue in the public sector and generally agreed with the distinction between “performance obligations”, as defined in ED 70, and “present obligations”, as described in ED 71. However, some ED respondents indicated that the distinction is not clear or is difficult to apply in practice, and as a consequence, it was unclear which proposed standard and set of principles would apply to a specific transaction.

BC21. As a result of these comments, the IPSASB:

(a) Reflected on the similarities and differences between “present obligations” as proposed in ED 71 and “performance obligations” as proposed in ED 70;

(b) Considered whether the differences warranted different accounting principles for revenue with present obligations compared with revenue with performance obligations; and

(c) Clarified the proposed guidance to better explain the concepts in a principled manner.

Similarities and Differences

BC22. During its review of comments from respondents, the IPSASB acknowledged that present obligations and performance obligations both:

(a) Arise from transactions with binding arrangements, and thus are legally binding obligations (i.e., enforceable through legal or equivalent means);

(b) Are described with sufficient specificity in the binding arrangement in order to enable each party in the binding arrangement to hold the other party or parties accountable to satisfy their respective obligations in a specified manner, in compliance with the terms and conditions of that binding arrangement; and

(c) Are units of account to determine distinct components in a binding arrangement, which are used as mechanisms to recognize and measure revenue as an entity satisfies its obligations in that binding arrangement.

BC23. Reflecting on the differences, the IPSASB clarified that the notion of a present obligation was intended to reflect non-exchange type public sector transactions arising from binding arrangements previously covered by IPSAS 23, whereas a performance obligation was intended to reflect exchange-type public sector transactions previously covered by IPSAS 9 and IPSAS 11 (and comparable to commercial transactions in the private sector, in scope of IFRS 15). Consistent with its decision to acknowledge the economic substance of these transactions, but to move away from using exchange and non-exchange to classify revenue, the IPSASB further considered how to better distinguish the two types of obligations in a binding arrangement.

BC24. A performance obligation as presented in ED 70 is an entity’s obligation that requires a transfer to an external party (i.e., from the entity back to the transfer provider (purchaser) or to an identified third-party beneficiary). The outputs from the entity’s use of resources in a performance obligation as presented in ED 70 are transferred out of the entity in the form of distinct goods or services to another party. This would not capture public sector revenue transactions, like capital transfers, where the promise to use resources in a specified manner, on their own or together with other resources, results in using resources for specific goods or services internally. A legally binding obligation which requires a transfer out of the entity to an external party generally requires greater specificity and clearly identifiable actions for the entity to perform, thereby providing more objective and potentially more specific identification, recognition, and measurement of revenue.

Impact on Accounting Principles

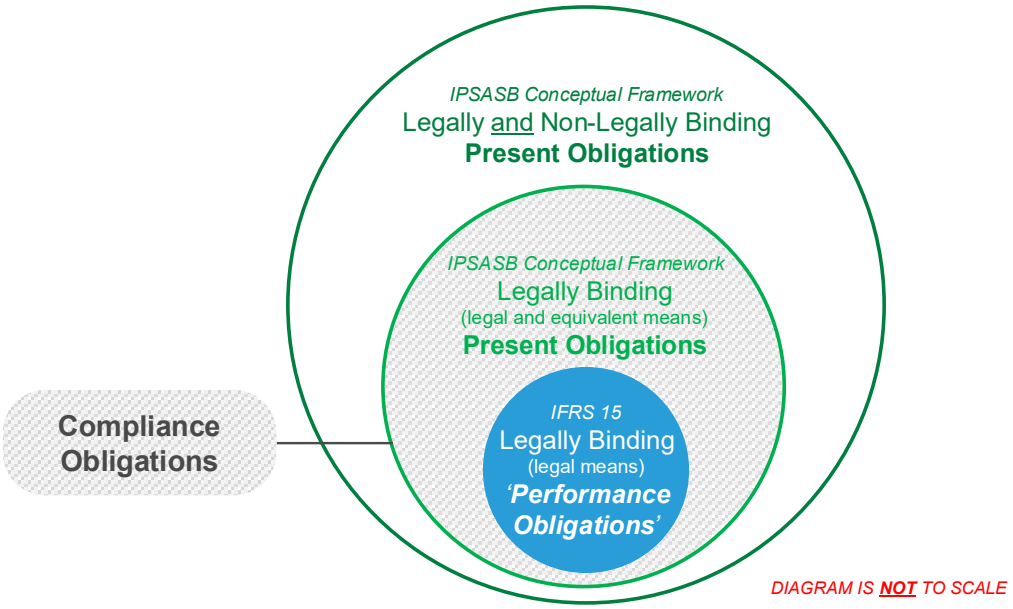
BC25. The IPSASB noted that, while there are identifiable differences between these two types of revenue and the party receiving the distinct goods or services from the entity's satisfaction of its obligations in a binding arrangement may differ, the underlying concept for present obligations and performance obligations are the same: both require the entity to use resources in a specified manner. Of significance is the enforceability of the binding arrangement from which the revenue arises, as this enforceability informs the recognition and measurement accounting principles to appropriately reflect the economic substance of revenue from binding arrangements. As such, the key accounting principles are consistent for both types of obligations in a binding arrangement.

Presenting Revised Guidance

BC26. The IPSASB's conclusion that the performance obligations in ED 70 are a subset of present obligations in ED 71 that comprise a minority of public sector revenues, and that key accounting principles are consistent for both types of obligations, were contributing factors to its decision to combine revenue guidance into a single IPSAS.

BC27. When considering how to clarify accounting guidance, the IPSASB noted that the concept of a "present obligation" in the revenue context is narrower than in the Conceptual Framework. A present obligation is a unit of account in revenue accounting, and is a legally binding obligation in a binding arrangement to use resources in compliance with the terms of the binding arrangement. Present obligations in the Conceptual Framework are legally or non-legally binding obligations, and are used more generally to describe an entity's obligations. A term other than "present obligation" would more clearly describe and define the concept for revenue accounting purposes.

BC28. Since performance obligations in ED 70 are a subset of present obligations, and both represent the notion of an enforceable promise or requirement arising from a transaction with a binding arrangement, the IPSASB decided to adopt the new term "compliance obligation" to describe all obligations arising from revenue transactions with binding arrangements. This notion of compliance is in relation to compliance with the terms and conditions in the entity's binding arrangement. This term and concept would encompass performance obligations (as presented in ED 70 and in alignment with IFRS 15, to capture revenues from transactions that transfer distinct goods or services to an external party) and present obligations (as presented in ED 71, and consistent with legally binding present obligations in the Conceptual Framework, to also capture revenues from public sector transactions that do not transfer distinct goods or services to an external party). The following diagram illustrates the relationship between "compliance obligation" and the previously used terms:



BC29. The IPSASB provided further guidance to highlight any additional considerations for the entity in applying the accounting principles to compliance obligations which require a transfer of specific distinct goods or services to an external party. Such compliance obligations to transfer goods or services to an external party generally entail a clear discharge of an entity's obligation in the binding arrangement. These additional considerations are intended to help an entity account for the deferral and recognition of revenue to better reflect the nature of such obligations.

BC30. The IPSASB's decision to have a single concept for obligations arising from revenue transactions with binding arrangements, along with the decision to present revenue guidance in a single IPSAS, also prompted the removal of redundant guidance proposed in the EDs related to scope considerations and measurement of transactions with components under the two proposed revenue standards.

Scope (paragraph 3)

Modification of IFRS 15 for Applicability to the Public Sector

BC31. The IPSASB modified the requirements of IFRS 15 to address public sector-specific transactions. This included using the concept of a binding arrangement, which is broader than a contract, in IPSAS 47 to allow for jurisdictions where government and public sector entities cannot enter into legal contracts but do enter into binding arrangements which are in substance the same as contracts.

BC32. The IPSASB modified enforceability to include mechanisms that are outside the legal system that are equivalent to legal means. This change was made because some binding arrangements in the public sector may arise and become enforceable through exercise of executive authority, legislative authority, cabinet or ministerial directives, and these binding arrangements would not be considered "contracts". The IPSASB also noted that legal or equivalent means is consistent with "legal obligation" as described in Chapter 5 of the Conceptual Framework, and is not a "non-legally binding obligation".

BC33. Public sector transactions may involve three parties: the resource provider, which provides the consideration; the entity, which receives the consideration and is responsible for using or transferring goods or services; and the third-party beneficiary, which can be an entity, individual or household, receiving those goods or services. While the IASB's educational materials refer to such three-party arrangements, they are not

explicitly highlighted in IFRS 15. The third-party beneficiary concept was made more explicit in IPSAS 47, as three-party transactions are expected to be much more prevalent in the public sector.

Modification of IFRS 15 Illustrative Examples

BC34. Illustrative Examples are non-authoritative guidance which illustrate accounting principles using general fact patterns prevalent globally amongst public sector entities. The IPSASB adapted the Illustrative Examples from IFRS 15 using the following approach for ED 70 and ED 71:

(a) Where the underlying concepts illustrated by an example is applicable to the public sector, the example was modified to incorporate realistic fact patterns which could apply to public sector entities such as governments and intergovernmental organizations;

(b) Where the underlying concepts in an example only had limited or no applicability to the public sector, the example was removed. This applied to examples involving price concessions granted by suppliers to distributors to preserve the supply chain relationship, additional goods or services in the telecommunications sector, “slotting fees” paid by a supplier to a retailer, warranties, franchise rights, and costs incurred in a competitive bidding scenario; and

(c) Developed new public sector-specific examples to illustrate the additional application guidance on scope, three-party arrangements, enforceability, and the additional disclosure requirements.

BC35. After addressing comments from ED respondents, the IPSASB reviewed the proposed Illustrative Examples and:

(a) Retained examples that use general case facts to illustrate principles which remain relevant in the Standard’s accounting models and application of complex principles to transactions that are both relevant and prevalent in the public sector. The retained examples were revised as necessary to better reflect the accounting principles in IPSAS 47;

(b) Removed examples that did not meet the retention criteria in BC35(a); and

(c) Added examples, using general fact patterns, to illustrate the application of accounting principles for capital transfers.

BC36. The IPSASB acknowledged that while the Illustrative Examples are not authoritative, an entity applying IPSAS 47 may find examples dealing with commercial transactions to be helpful if it is a party to such transactions. While commercial transactions may be relevant (i.e., may occur) in the public sector, the IPSASB expects such situations to be less prevalent (i.e., uncommon and thus with limited applicability) and decided to remove examples of relevant but not prevalent transactions to the public sector. The IPSASB noted that if a public sector entity is a party to commercial transactions, it may refer to IFRS 15 for additional Illustrative Examples of how an entity might apply the requirements of the Standard.

Non-monetary Exchanges between Entities in the Same Line of Business

BC37. In the discussion of non-monetary exchanges in paragraph (h) of IPSAS 47, the IPSASB replaced the example of non-monetary exchanges of oil between entities in the same line of business to facilitate sales to potential customers used in IFRS 15 with the exchange of electricity, because it is more relevant to the public sector.

Highlighting the Relationship Between IPSAS 47, Revenue, and IPSAS 48, Transfer Expenses

BC38. The IPSASB considered clarifying the scope and interaction between IPSAS 47 and IPSAS 48, *Transfer Expense*s, by defining the term “Transfer Revenue” in order to mirror the definition of “Transfer Expense” in IPSAS 48. Specifically, the IPSASB considered defining “Transfer Revenue” as a transaction, other than

taxes, in which an entity receives a good, service, or other asset from another entity without directly providing any good, service, or other asset in return.

BC39. While the IPSASB acknowledged that the definition was accurate and that it would be conceptually sound to highlight the mirroring relationship between transfer revenue and transfer expenses, the IPSASB ultimately decided not to introduce this term as a formal definition for the following reasons:

(a) A number of members were concerned that introducing a new definition relating to revenue may confuse constituents; and

(b) Transfer revenue would have been a subset of revenue in IPSAS 47. Separately defining this term when their recognition and measurement would have been the same as other types of revenue seemed to add an unnecessary level of complexity and duplication of guidance.

Onerous Contracts

BC40. The IPSASB considered if IPSAS 47 should include explicit guidance for binding arrangements that become onerous and noted that IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, which was developed based on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to onerous contracts. While this guidance refers to "contracts", the IPSASB noted that IPSAS 19 would still be applicable for binding arrangements with compliance obligations that transfer goods or services to another party. Furthermore, binding arrangements with compliance obligations to use resources for goods or services internally would not meet the definition of an onerous contract because there are no exchange of assets or services. Therefore, the IPSASB concluded that the scope exclusion in paragraph 3 of IPSAS 47 and paragraph 1(c) of IPSAS 19 are sufficient, and incorporated a specific reference to IPSAS 19 in paragraph 79.

Compulsory Contributions and Levies to Social Security and Other Schemes

BC41. There is a variety of different arrangements for funding social security schemes across jurisdictions. Constituents commented that IPSAS 23 did not address the accounting for these funding arrangements. The IPSASB considered the issue in developing IPSAS 42, *Social Benefits*.

BC42. The IPSASB concluded that such contributions are revenue transactions without binding arrangements, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in IPSAS 42. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this Standard.

BC43. In developing IPSAS 42, the IPSASB also noted that some government programs that do not meet the definition of a social benefit in that Standard (for example, healthcare benefits in some jurisdictions) may also involve compulsory contributions or levies. The IPSASB concluded that the same principles of revenue recognition applied to these transactions as applied to contributions for social benefits and to taxation. The IPSASB agreed to extend the requirement for recognizing taxation revenue to cover other compulsory contributions and levies, whether arising from social benefits or other government programs. The amended requirements were incorporated into this Standard.

Definitions (paragraphs 4–8)

General Alignment with Public Sector Terminology

BC44. In adapting IFRS 15 for use in the public sector, the IPSASB modified the following terms in IPSAS 47 to better align with terminology used in the public sector:

(a) All the references to “sell” or “sold” were replaced with the terms “provide” and “provided”, respectively. In addition to general alignment with public sector terminology, this change also accommodates the fact that in three-party revenue arrangements, goods or services are provided, rather than sold, by an entity to a third-party beneficiary;

(b) “Stand-alone selling price” was replaced with “stand-alone value”;

(c) “Customary business practices” was replaced with an entity’s “customary practices”;

(d) “Industry” was replaced with “sector”; and

(e) Editorial changes were made to the definition of “transaction consideration”.

Other changes in terminology and new definitions were added for public sector-specific reasons. These changes and additions are explained in paragraphs BC45–BC62.

Binding Arrangements

BC45. The IPSASB replaced all references to “contracts” in IFRS 15 with references to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities may not have the power to enter into legal contracts but nevertheless may have the authority to enter into binding arrangements. The IPSASB agreed that binding arrangements, for the purpose of IPSAS 47, should encompass rights that arise from legislative or executive authority, cabinet or ministerial directives. For clarity, the IPSASB also decided to explicitly specify in the definition that a binding arrangement confers both enforceable rights and enforceable obligations on the parties to the arrangement. To assist with the expanded concept of binding arrangements, Application Guidance was added to IPSAS 47 in paragraphs AG10–AG31. As the concept of a contract may still be applicable in the public sector, the IPSASB specified in the binding arrangement definition that a contract is a type of binding arrangement. The definition of “contract” is in IPSAS 43, *Leases*, which was approved prior to IPSAS 47.

BC46. Considering constituent comments from ED respondents on the concept and definition of a binding arrangement, the IPSASB:

(a) Acknowledged that multi-party arrangements, where more than two parties in the arrangement each have their own enforceable rights and enforceable obligations, are common in the public sector. The IPSASB revised the definition of a binding arrangement to better reflect that at least two parties must each have their own respective enforceable rights and enforceable obligations, thereby conferring at least two-way enforceability; and

(b) Reconfirmed its decision that a binding arrangement includes both rights and obligations, and each party’s enforceable right and enforceable obligation are interdependent and inseparable.

BC47. The IPSASB concluded that the use and definition of the term “binding arrangement” in IPSAS 47 is conceptually consistent with existing IPSAS and the difference in wording is intentional for the purposes of IPSAS 47. The definition was retained, with minor wording revisions to clarify the concept and application in IPSAS 47.

BC48. Since a binding arrangement is, by definition, enforceable, and includes both rights and obligations for the parties, the IPSASB concluded that all binding arrangements will include at least one compliance obligation. In other words, a binding arrangement always includes at least one compliance obligation because the enforceability of binding arrangements provides each party with the ability to enforce obligations agreed upon in that binding arrangement.

Unenforceable Transactions

BC49. The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needed to be enforceable by the resource provider. For example, taxpayers do not normally have enforceable rights, and the implied requirements may give rise to enforceable obligations of the resource recipient.

BC50. The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.

Appropriations

BC51. The IPSASB noted that, in some jurisdictions, a revenue transaction might be made subject to authorization of an appropriation. The IPSASB considered whether such a limitation should affect the recognition of revenue. The IPSASB concluded that the impact of such a limitation would depend on whether the limitation had substance. The IPSASB agreed that where the limitation has substance, the entity has no enforceable claim and should not recognize an asset prior to the appropriation being authorized. The IPSASB also agreed to include guidance on determining whether the limitation has substance.

Compliance Obligation

BC52. As outlined in BC26–BC28, the IPSASB decided to adopt the new term “compliance obligation” to describe all obligations arising from revenue transactions with binding arrangements. The definition of “compliance obligation” reflects that an entity’s obligation in a binding arrangement requires the entity to either use resources internally for a distinct good or service or transfer a distinct good or service to an external party (purchaser or third-party beneficiary). This definition is intended to encapsulate the concept as presented in IFRS 15 (and proposed in ED 70 as "performance obligations”), but revised to better capture public sector transactions arising from binding arrangements where an entity does not transfer distinct goods or services to an external party (proposed in ED 71 as "present obligations”).

Binding Arrangement Asset and Binding Arrangement Liability

BC53. As a consequence of replacing all references to “contract” with references to “binding arrangement”, the IPSASB also replaced the terms “contract asset” and “contract liability” with “binding arrangement asset” and “binding arrangement liability”, respectively.

Resource Provider

BC54. To more clearly describe the other party in a revenue transaction, the IPSASB introduced the term “resource provider” as part of its decision to present guidance for all public sector revenue transactions in a single standard. This party provides a resource, which encompasses various goods, services, and assets, including in the form of transfers, to the entity applying IPSAS 47. A resource provider may or may not be the party receiving goods or services from the reporting entity.

BC55. This Standard refers to the party providing resources in a revenue transaction as the “resource provider”, while IPSAS 48 refers to the party providing resources in a transfer expense transaction as the “transfer provider”. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.

Purchaser and Third-Party Beneficiary

BC56. The IPSASB replaced the term “customer” with “purchaser”, because the use of the term “purchaser” is widespread in IPSAS literature and is a broader term more suited to transactions involving the transfer of goods or services to either the purchaser or agreed third-party beneficiary. The IPSASB revised the definition of a “purchaser” to clarify that it is a resource provider that receives goods or services from the entity. As the term “customer” may still be applicable in certain circumstances in the public sector, the IPSASB also retained the definition of a customer but clarified that a customer is a type of purchaser.

BC57. The IPSASB added the term “third-party beneficiary” following the term “purchaser”, where appropriate, to describe the transfer of goods or services in three-party arrangements, which are common in the public sector. The term “third-party beneficiary” was defined so that its meaning can be consistently applied to IPSAS 47 as well as IPSAS 48.

Revenue and Customer

BC58. The IASB’s definition of revenue refers to income arising in the course of an entity’s ordinary activities, and income encompasses both revenues and gains. The IASB’s definition of “customer” also refers to obtaining goods or services that are an output of the entity’s ordinary activities. To be consistent with IPSAS 1, the IPSASB decided not to adopt the IASB’s definition of revenue. As a result, IPSAS 47 uses the definition of “revenue” in IPSAS 1 and does not refer to “income arising in the course of an entity’s ordinary activities”.

BC59. As the IASB’s definition of “revenue”, which refers to “ordinary activities”, was not adopted, the IPSASB replaced the references to “ordinary activities” in the definition of “customer” with references to “activities” to ensure consistency with the Conceptual Framework. The current IPSAS literature does not make a distinction between ordinary activities and activities outside the ordinary course of operations, primarily because of the multi-functional nature of many public sector entities.

BC60. The IPSASB decided to replace the term “commercial substance” with “economic substance” which encompasses commercial substance. The public sector entities which apply IPSAS generally do not have commercial objectives. Therefore, the term “commercial substance” was considered to be inappropriate. As a result of this change, the IPSASB added application guidance on economic substance in paragraphs AG32–AG34.

Combining Binding Arrangements

BC61. When considering the criteria for when an entity shall combine two or more binding arrangements, the IPSASB considered replacing the term “commercial objective”, with “economic objective”, because the term “commercial objective” refers to the objective to make a profit, whereas the primary objective of most public sector entities is to deliver services to the public. However, the IPSASB decided to simply replace the term “commercial objective” with “objective” because the term “economic objective” could have a different connotation for the public sector than the objective of delivering services to the public.

Economic Benefits and Service Potential from Distinct Goods or Services

BC62. According to the Conceptual Framework, a resource provides benefits in the form of service potential or the capability to generate economic benefits. The IPSASB acknowledged that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows. Therefore, the IPSASB replaced the term “benefits” with “economic benefits or service potential” in IPSAS 47.

Retained Terminology and Definitions

BC63. The IPSASB considered whether any modification was required to the following terms and definitions but ultimately decided to retain them without modification, as there was no public sector-specific reason to modify them:

(a) Goods or services;

(b) Consideration;

(c) Exchange;

(d) Distinct; and

(e) Fair value.

Identifying the Revenue Transaction (paragraphs 9–16)

BC64. In response to constituent comments in response to the EDs, outlined in paragraphs BC14–BC17, the IPSASB restructured the guidance in IPSAS 47 to require an entity to consider up front whether the transaction is without or with a binding arrangement. The enforceability of a binding arrangement necessitates different accounting principles in order to capture the nature and risks of such transactions (in comparison with transactions without binding arrangements). The IPSASB also added Implementation Guidance to support the accounting principles presented in the authoritative text, as this is an important and complex area of the revenue guidance.

Revenue from Transactions without Binding Arrangements (paragraphs 17–55)

BC65. The definition of a binding arrangement specifically requires each party in the arrangement to have both an enforceable right and enforceable obligation. If one of these components is not present in the arrangement, then it is not a binding arrangement. This means that various transactions are to be accounted for as revenue from transactions without binding arrangements, where the entity has:

(a) An enforceable right, and an unenforceable obligation;

(b) An unenforceable right, and an enforceable obligation; or

(c) An unenforceable right and an unenforceable obligation.

BC66. The IPSASB has included more explicit guidance to prompt an entity to consider whether any of its rights or obligations in the transaction may meet the definition of an asset or liability, respectively, in accordance with the Conceptual Framework. This additional guidance is consistent with existing accounting principles, and is included to better balance the accounting model for revenue without binding arrangements and overall ensures that the two accounting models are comprehensive and stand-alone for users of this Standard.

BC67. This Standard also does not establish different recognition requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that, while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify a different recognition point.

Entity Bank Accounts

BC68. This Standard assumes the requirement that all money deposited in a bank account of an entity satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity. The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The Standard also requires the recognition of a liability in respect of any amount the entity has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Assets and Liabilities

BC69. This Standard requires assets acquired in revenue transactions to be initially measured at their transaction consideration as at the acquisition date. The IPSASB was of the view that this is appropriate to reflect the substance of the transaction and its consequences for the entity. The cost of acquisition is usually a measure of the fair value of the asset acquired. However, the consideration provided for the acquisition of an asset may not be equal to the fair value of the asset acquired. Transaction consideration most faithfully represents the actual value the entity accrues as a result of the transaction. Initial measurement of non-monetary assets acquired at their transaction consideration, which is the current value for non-monetary assets, is consistent with the approach taken in IPSAS 16, *Investment Property* for assets acquired at no cost or for a nominal cost. The IPSASB made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 to fully align those IPSAS with the requirements of this Standard.

BC70. As part of the development of IPSAS 46, *Measurement*, the IPSASB decided that, in the case of non-monetary assets in the scope of IPSAS 45, *Property, Plant, and Equipment*, held for its operational capacity, deemed cost should be clarified to include current operational value. The IPSASB agreed to require the use of current operational value on initial measurement where the transaction price does not faithfully reflect the substance of the transaction for property, plant, and equipment held for their operational capacity. While fair value continues to faithfully represent the value to the public sector entity of property, plant, and equipment held for its financial capacity, current operational value faithfully represents the value of property, plant, and equipment held for its operational capacity.

BC71. This Standard requires that where an entity recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB was also cognizant of the amendments proposed for IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

BC72. This Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts of Taxes

BC73. This Standard requires an entity that receives resources in advance of the taxable event, or of an arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event does not occur, or the arrangement does not become enforceable, the entity may need to return part or all of the resources. One common view is that, where resources are received in advance of the taxable event, an entity should only recognize a liability where it considers it probable that there will be a subsequent transfer of resources. The IPSASB supported the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to an arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

BC74. This Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is generally not permitted. As defined in this Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB concluded that this treatment was consistent with the principles established in this Standard.

BC75. The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[10] The IPSASB noted that the current OECD treatment does not conform to the conceptual principles underpinning the IPSAS and the IPSAS 1 requirement not to offset items of revenue and expense.

The Tax Gap

BC76. For some taxes, government entities will be aware that the amount it is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, non-compliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

BC77. The IPSASB concluded that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect to the tax gap.

Revenue from Transactions with Binding Arrangements (paragraphs 56–161)

Accounting for the Binding Arrangement

BC78. The IPSASB noted that the title and structure of Step 1 of the five-step model proposed in ED 70, previously titled "Identifying the Binding Arrangement", caused confusion for some constituents. The criteria in paragraph 56 are not intended to identify whether an arrangement is a binding arrangement; an entity should identify a binding arrangement by assessing whether an arrangement meets the definition of a binding arrangement. Rather, an entity is to consider the criteria in paragraph 56 when determining if revenue from a binding arrangement should be accounted for using the five-step accounting model in IPSAS 47. The IPSASB decided to reorder the authoritative guidance on binding arrangements and clarify when the five-step model should be considered in accounting for revenue transactions arising from binding arrangements.

Probability of Collection of Consideration to which an Entity is Entitled (Paragraph (e))

BC79. Paragraph (e) is part of the criteria that must be met before an entity can apply the five-step accounting model in IPSAS 47. Paragraph (e) requires the collection of consideration to which an entity is entitled to be probable.

[10] OECD, Revenue Statistics (Paris: OECD, 2000): p. 267, §20-21.

BC80. One of the underlying assumptions in IFRS 15 is that collectability of consideration from customers is likely in the private sector because:

(a) Entities generally only enter into contracts in which it is probable that the entity will collect the amount to which it is entitled; and

(b) Unless there are significant penalties for exiting a contract, most entities would not continue to be in a contract with a customer in which there was significant credit risk associated with that customer without adequate economic protection to ensure that it would collect the consideration.

BC81. The IPSASB acknowledged that the probability criterion for certain binding arrangements with resource providers is an issue for the public sector in some jurisdictions. Some public sector entities are required to enter into binding arrangements to provide certain goods or services (such as water and electricity) to all citizens in accordance with their legislative mandate, regardless of the resource provider's ability or intention to pay. As a result, public sector entities may enter into some binding arrangements where collectability of the consideration is not probable.

BC82. When the collection of consideration is not probable, (which can occur when an entity is compelled to deliver a good or service), application of paragraph (e) without modification could result in revenue not being recognized until the consideration has been collected and the conditions in paragraph 58 of IPSAS 47 are met.

BC83. The IPSASB decided to retain paragraph (e) because:

(a) Transactions where the collection of consideration is not probable do not meet the definitions of revenue in paragraph 4 of IPSAS 47, paragraph 7 of IPSAS 1, and paragraph 5.29 of the Conceptual Framework; and

(b) The probability criterion aligns with IFRS 15 requirements and prevents entities from recognizing revenue and large impairment losses at the same time.

BC84. The IPSASB acknowledged that arrangements into which an entity is compelled to enter, where the collectability of the consideration is in question, could be prevalent and material in certain jurisdictions. The IPSASB noted that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession as described in paragraph AG37 (see paragraph BC110).

BC85. To assist with the application of paragraph (e), the IPSASB added paragraph AG37, which states that when an entity is providing goods or services and accepts a lower amount of consideration, the acceptance of the lower amount of consideration is generally considered an implicit price concession. This guidance is based on the concepts illustrated in Illustrative Examples 2 and 3 of IFRS 15, and the IPSASB decided that it would be appropriate to elevate the concept from these examples due to the potential prevalence of transactions with collections risk in the public sector. Once an entity has concluded that it has provided a price concession, the binding arrangement with the lowered transaction consideration may meet the collectability criterion in paragraph (e) and the entity would apply the five-step accounting model to the binding arrangement. The IPSASB also enhanced paragraph AG37 to address comments from ED respondents on how an entity should consider implicit price concessions in the assessment of collectability, and use its best estimate of risks associated with the resource provider at the inception of the binding arrangement.

Recognition of Consideration Received as Revenue when the Criteria in Paragraph 56 are not Met (Amendment of Paragraph 58)

BC86. In IFRS 15, if a transaction does not meet all of the criteria for revenue recognition using the five-step accounting model and the entity receives consideration from a customer, the consideration is recognized as revenue when either:

(a) The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

(b) The contract has been terminated and the consideration received from the customer is non-refundable.

BC87. In the public sector, because an entity may be compelled to continue to provide goods or services to parties who cannot pay for these goods or services, the IPSASB was concerned that the application of paragraph 15 of IFRS 15 may lead to situations where revenue is never recognized, even if an entity has collected a portion of the promised consideration and the amounts collected are non-refundable. To address this concern, the IPSASB clarified in paragraph (a) of IPSAS 47 that an entity shall recognize the consideration received as revenue when the entity has fully satisfied the compliance obligation related to the consideration received, and the consideration received is non-refundable.

Overall Impact from the Application of Paragraphs (e), 58 and AG37

BC88. The IPSASB noted that the application of paragraphs (e), 58 and AG37 would lead to the following possible outcomes, and considered the accounting and disclosure implications of the outcomes when the requirements of this Standard are applied:

(a) Criterion (e) is met and there are no collectability issues – In this scenario, the binding arrangement will be accounted for using the five-step accounting model and no specific disclosures regarding compelled transactions are required. As required by paragraph 57, if facts and circumstances have changed significantly since the initial assessment, the entity is required to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.

(b) Criterion (e) is met, but only after the transaction consideration has been reduced for the implicit price concession as noted in paragraph AG37 – In this scenario, the binding arrangement will be accounted for using the five-step accounting model but at the reduced transaction consideration. Specific disclosures regarding compelled transactions will be required by paragraph 171 (see paragraph BC110 below). Similar to the scenario in paragraph BC88(a), if facts and circumstances have changed significantly since the initial assessment, the entity is required by paragraph 57 to reassess if the binding arrangement continues to meet all the criteria in paragraph 56.

(c) Criterion (e) is not met, and the entity has collected a portion of the consideration – This scenario can arise when there is not enough information to formulate an expectation of the amounts to be collected or when there is no discernible pattern of collection based on past history. In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Any consideration received is subject to the revenue recognition criteria in paragraphs 58 and 86. Specific disclosures regarding compelled transactions will be required by paragraph 171.

(d) Criterion (e) is not met, and no consideration has been collected – In this scenario, paragraph 58 requires the entity to continue to reassess whether the binding arrangement meets all the criteria in paragraph 56. Specific disclosures regarding compelled transactions will be required by paragraph 171.

Based on the above, the IPSASB was satisfied that paragraphs 58, 171 and AG37 address the concerns discussed in paragraphs BC84, BC87 and BC110.

Breach of the Terms and Conditions of a Binding Arrangement

BC89. The IPSASB considered the accounting consequences arising from the breach of the terms and conditions of a binding arrangement. The IPSASB concluded that the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors,* should be considered to determine whether the breach

resulted in an error as defined in IPSAS 3. Where the circumstances of the breach are such that the guidance in IPSAS 3 is not applicable, guidance included in this Standard should be applied.

Identifying Compliance Obligations in a Binding Arrangement

BC90. Further to its discussions outlined in paragraphs BC20–BC29, the IPSASB confirmed that a binding arrangement has at least one compliance obligation, and each compliance obligation is a unit of account to determine a distinct component within the binding arrangement and is a mechanism for the recognition and measurement of revenue. Since an entity's binding arrangement may have multiple compliance obligations, the IPSASB decided to revise existing guidance to help entities identify and account for each of its obligations in a binding arrangement separately, in accordance with the nature of each distinct obligation, and added Implementation Guidance to support the principles presented in the authoritative text. The IPSASB also confirmed that principles in this Standard are consistent with the Unit of Account guidance proposed in Chapter 5*, Elements in Financial Statements* of the *Conceptual Framework*.

Existence and Recognition of a Liability

BC91. Some respondents to ED 71 provided comments related to the existence of a liability in a binding arrangement: for example, what gives rise to a liability in a binding arrangement, whether and when a liability is recognized, and if that liability only arises when there is a return (i.e., repayment) obligation, as previously presented in IPSAS 23. The IPSASB considered these comments in conjunction with the guidance proposed in Chapter 5*, Elements in Financial Statements* of the *Conceptual Framework*.

BC92. Through its discussions, the IPSASB confirmed that the enforceability of a binding arrangement is a key element which may give rise to a liability (specifically, deferred revenue) for the entity, to the extent that the terms of the arrangement are not yet satisfied. An entity recognizes a liability (deferred revenue) in its transaction with a binding arrangement when it has received resources prior to satisfying its compliance obligation(s), and the resource provider can enforce the terms of the binding arrangement, specifically, to enforce its right and require the entity to transfer resources to another party if it does not satisfy its compliance obligation(s). If the criterion in paragraph (b) is not met, it may indicate that the arrangement is not a binding arrangement and the entity should reconsider its analysis.

BC93. The IPSASB also confirmed that, after initial recognition, the liability (deferred revenue) is reduced over time as (or fully extinguished at a point in time when) the entity satisfies the compliance obligation(s) associated with resources previously received and earns revenue.

Recognition of Revenue Transactions with Binding Arrangements

BC94. The IPSASB confirmed that for revenue transactions with binding arrangements, there is no initial recognition when no party has started to satisfy its obligations under the binding arrangement, unless the binding arrangement is onerous, as the combined right and obligation constitute a single asset or liability in the statement of financial position. The accounting begins when the binding arrangement is at least partially satisfied (i.e., at least one party begins to satisfy one or more of its obligations).

BC95. In ED 71, the IPSASB proposed that the present obligations in enforceable transactions would either be a specified activity, or a requirement to incur eligible expenditure. Neither a specified activity nor eligible expenditure requires the entity to transfer a good or service to either the transfer provider or a third-party beneficiary. The entity would recognize an asset and a liability when it had control of, or right to, the resource transferred and the revenue would be recognized (and the liability decreased) when (or as) the present obligation was satisfied.

BC96. Some respondents to ED 71 did not agree that specified activities and eligible expenditures were present obligations and gave rise to liabilities as defined in the Conceptual Framework. Upon reflection, the IPSASB

acknowledged that the intention was not that the specified activities or eligible expenditures in and of themselves give rise to a present [compliance] obligation, but that they are an entity's actions or spending to satisfy a specific promise it agreed to by willingly entering into a binding arrangement. Specified activities and eligible expenditures are examples of ways in which an entity may satisfy its obligations in a binding arrangement in accordance with the requirements in that binding arrangement, thereby informing the recognition of earned revenue. An entity should apply the guidance in paragraphs 98–104 of the accounting model for binding arrangements to determine which method is appropriate for measuring its progress towards complete satisfaction of its compliance obligation. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Determining the Transaction Consideration

BC97. In responding to constituent's concerns relating to the fair value measurement of receivables where the amount collectible is uncertain, the IPSASB incorporated a constraint requiring measurement of revenue and the associated receivable only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

BC98. Constituents noted that there are a number of revenue transactions within the scope of IPSAS 47 that are difficult to measure at fair value because of the uncertainty in timing and amount of cash flows. In general, this uncertainty is associated with long dated transactions where the amounts will be determined at a later date. For example, the time taken after a death (the tax point) to identify all assets liable to an inheritance tax can be considerable where the deceased's estate is complex. As a result, the amount of inheritance tax to which the tax authority is entitled is uncertain at the reporting date, even though there is certainty in collection.

BC99. The IPSASB agreed these transactions presented measurement challenges. Incorporating a constraint limiting measurement to when it is highly probable that a significant reversal in the amount of revenue recognized will not occur satisfied the IPSASB's objectives by limiting the onerous task of estimating uncertain future cash flows until they become certain, which addressed concerns raised by constituents.

Allocating the Transaction Consideration to Compliance Obligations

BC100. IFRS 15 states that an entity should allocate the transaction price (consideration) to all performance obligations in proportion to the stand-alone selling prices of the goods or services. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price using either the:

(a) **Adjusted market assessment approach** – an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services;

(b) **Expected cost plus a margin approach** – an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service; or

(c) **Residual approach** – an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.

BC101. The IPSASB retained the methods of determining a stand-alone value in IPSAS 47, as they were appropriate for the transactions that would be covered in the Standard and added Implementation Guidance to provide additional guidance on application in the public sector. However, the IPSASB replaced the term "expected cost plus a margin approach", with the term "expected cost approach", because certain goods or services

are purchased or produced by public sector entities for no charge or for a nominal charge (“cost recovery” or “non-commercial basis”). The IPSASB noted that the expected cost approach is likely more relevant in the public sector for non-exchange-type transactions, whereas the adjusted market assessment approach is likely more relevant for exchange-type transactions.

BC102. These methods are used to estimate the stand-alone value in order to allocate the transaction consideration to each compliance obligation.

Considering Changes in an Entity’s Revenue Arrangement

BC103. Although an entity has the ability to enforce its binding arrangement, a change in internal or external factors, such as the entity’s choice to partially or fully exercise its ability to enforce, may have accounting implications. These factors may vary based on the relationship with the other party or parties in the binding arrangement, jurisdictional considerations, specific circumstances subsequent to initially entering into the binding arrangement, or other considerations.

BC104. The IPSASB highlighted the importance of appropriately assessing the implications of changes in internal and external factors from a public financial management perspective. Appropriately reporting and disclosing information related to these arrangements enables public sector entities to be transparent to its constituents. Changes that do not impact the economic substance of the arrangement (i.e., whether the entity has a binding arrangement) would inform the subsequent remeasurement of any receivables or binding arrangement assets. This assessment requires professional judgment and consideration of all elements of the transaction in order to determine whether and how factors impact subsequent measurement. The IPSASB also added Implementation Guidance to support the principles presented in the authoritative text.

Subsequent Measurement of Non-Contractual Receivables

BC105. Receivables arising from contractual agreements would be within the scope of the financial instrument standards. However, it is possible for receivables to arise from other revenue arrangements (specifically, revenue from binding arrangements that are not contracts, or arrangements that are not binding arrangements), which would fall outside the scope of IPSAS 41, *Financial Instruments*. To address the lack of guidance for subsequent measurement of these receivables, the IPSASB proposed guidance in ED 70 and ED 71 that an entity should initially measure such receivables at the transaction consideration, as required by paragraphs 57–60 and AG115–AG117 of IPSAS 41.

BC106. While the majority of respondents to ED 70 and ED 71 agreed with the proposed measurement of receivables, some respondents noted that the application of IPSAS 41 to subsequently measure non-contractual receivables was unclear and potentially difficult in practice. The IPSASB acknowledged that while a non-contractual receivable would not strictly meet the definition of a financial asset, the substance and risks are consistent with those of contractual receivables, and these receivables should be accounted for with a consistent set of principles. The IPSASB reaffirmed that consistency in accounting for transactions with the same substance is necessary from a stronger public financial management perspective, and noted that constituents did not challenge the IPSASB’s conclusion that there are no public sector-specific reasons which warrant a different accounting treatment for subsequent measurement of non-contractual receivables compared to contractual receivables. The IPSASB also reaffirmed that, as previously expressed by CP respondents, these receivables are generally expected to be classified and measured at amortized cost, as the entity’s management model is likely to hold financial assets to collect cash flows (consideration owed in the revenue arrangement) and not to sell financial assets, and the cash flows are solely payments of the principal and any interest outstanding.

BC107. A few constituents also requested a simplified approach or practical expedient for non-contractual receivables, to address potential difficulties in applying IPSAS 41 in practice. The IPSASB acknowledged

that the availability of certain information may pose some difficulties in applying amortized cost which may not be sufficiently eased by the use of the simplified approach for receivables in paragraphs 87-89 of IPSAS 41. However, non-contractual receivables, by nature of the revenue arrangements from which they arise, are typically held to collect expected cash flows related to the revenue transaction (rather than to sell and trade), and have shorter maturity periods (i.e., when consideration becomes due from the resource provider), similar to short-term receivables, and the required estimates would not span a long uncertain time period. Consideration of the time value of money and expected credit losses are necessary to appropriately reflect the economic substance of both contractual and non-contractual receivables. The IPSASB concluded that another simplified approach or practical expedient would not be appropriate, as an inconsistent application of accounting principles for transactions of the same substance and risks would not reflect the economic substance of these transactions.

BC108. Based on its analysis, the IPSASB added Implementation Guidance to support the principles presented in the authoritative text, and address constituent comments and clarify how IPSAS 41 principles can be applied by analogy to subsequently measure non-contractual receivables.

Presentation (paragraphs 162–193)

Approach to Disclosure Requirements

BC109. The IPSASB noted that the objective of the disclosure requirements is to provide information which enables users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows. As all of the concepts from IFRS 15 on recognition and measurement of revenue were retained in ED 70, the IPSASB decided that there was no public sector-specific reason to remove any of the disclosure requirements from IFRS 15, and were also incorporated into ED 71 for consistent disclosure of revenues from binding arrangements with present obligations. The IPSASB acknowledged that the retention of all disclosure requirements from IFRS 15 will result in significantly more requirements than required in the existing IPSAS 23.

BC110. In response to the concerns noted in paragraph BC84 regarding the potential loss of information on transactions where an entity is compelled to enter into a transaction by legislation or other governmental policy decisions, and where the collection of consideration is not probable or only assessed as probable after accepting a price concession as noted in paragraph AG37, the IPSASB decided to require disclosure of the information (in IPSAS 47 as paragraph 171). The IPSASB noted that these additional disclosures will provide users of the financial statements with details on why an entity was compelled to enter into such transactions, as well as the level of goods or services that were provided by the entity in such transactions for which revenue was not recognized.

BC111. As part of the exposure drafts, the IPSASB requested constituent responses on whether they agreed with the inclusion of disclosure requirements aligned with IFRS 15, and a public sector-specific disclosure requirement for transactions which an entity is compelled to enter into by legislation or other governmental policy decisions.

BC112. The majority of respondents to ED 70 and ED 71 generally agreed with the proposed disclosures and the assertion that there was no public sector-specific reason to deviate from IFRS 15 alignment for transactions with the same substance. At the same time, the IPSASB acknowledged feedback from respondents about the volume of disclosures in the two EDs, and decided to take a principle-based approach in reassessing disclosure requirements, focusing on the nature of the transactions and their risks. With this approach in mind, the IPSASB noted that its decisions since the issuance of ED 70 and ED 71, in particular to present revenue guidance in a single standard with a revised order, partially address constituent comments as the overall volume of disclosures has been reduced and has resulted in a more succinct and clear set of disclosures.

BC113. The IPSASB noted that the key purpose of disclosures, as presented in the IPSASB's Conceptual Framework, is to provide financial information that supports accountability and is useful for decision-making purposes. In the context of revenue, an entity's disclosures should provide information that is useful in understanding the nature, amount, timing, and uncertainty of the entity's revenue for material revenue transactions, and disclosure requirements should prompt entities to disclose (or consider disclosing) such information about its revenue transactions. This means that, similar to other IPSAS, not all disclosure requirements in IPSAS 47 may be applicable for an entity in its preparation of financial statement note disclosures. In practice, it is likely that fewer than the full range of possible disclosures may be made by an entity.

BC114. Furthermore, under a principle-based approach, disclosures should align with the accounting principles set by the IPSASB within the respective accounting models.

(a) Transactions arising without binding arrangements are expected to comprise a majority of public sector revenues. IPSAS 23 disclosures (all brought into ED 71) remain relevant, useful, and appropriate for public sector revenues arising without binding arrangements; and

(b) Transactions arising with binding arrangements are accounted for under the same model because the enforceability of binding arrangements drives the accounting principles to capture the substance and risks of revenue with binding arrangements. To maintain a principle-based approach, all transactions accounted for under the binding arrangement model should be subject to the same set of disclosure requirements. The proposed disclosures, based on IFRS 15 and adapted for the public sector, are consistent with the concepts and principles in the binding arrangement accounting model that may be applied to public sector revenue transactions with binding arrangements. Thus, they remain relevant, useful, and appropriate for public sector revenue arising with binding arrangements.

BC115. Based on its analysis, the IPSASB decided to retain the disclosures previously proposed in ED 70 and ED 71, as they meet the disclosure objective and remain appropriate and consistent with the principles for the respective accounting models. An entity may apply all disclosure requirements if they are relevant for any specific transaction, but need not apply any requirements that are not relevant. This is consistent with the application of the accounting models themselves, where an entity may apply the principles and guidance in each accounting model for any revenue transaction, but need not apply those that are not relevant for a specific transaction. A public sector entity will need to consider and determine which disclosure requirements apply to their revenue transactions.

BC116. The IPSASB acknowledged that a few respondents requested specific additional disclosures and highlighted that IPSAS disclosure requirements do not prohibit entities from disclosing any information not formally required in any IPSAS. An entity can choose to provide additional disclosures at its own discretion, for example, if it deems the information would meet the overall objective of disclosure requirements and would provide relevant, useful, and appropriate information for decision-making purposes.

BC117. The IPSASB noted that some entities which provide goods, services, or other assets to third-party beneficiaries would like to disclose information in their financial statements regarding their programs. As a result, the IPSASB decided to revise paragraph AG207, which provides suggestions for the categories used to disaggregate revenue disclosures, to include a category for revenue earned from the provision of goods or services to third-party beneficiaries.

Application Guidance (paragraphs AG1–AG207)

Scope Exclusions

BC118. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph AG7). Many public sector entities receive inflows of resources from

entities that control them, own them, or are members of them. In certain circumstances, the inflow of resources will be designated as a contribution from owners. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Enforceability

Assessment of Enforceability

BC119. Some respondents to ED 70 and ED 71 noted that the accounting guidance mentioned several mechanisms or factors of enforceability, but were unclear on whether certain factors are considered more demonstrative than others. The IPSASB considered these comments and debated whether the presence or absence of specific factors, such as past history of enforceability, demonstrates the enforceability of a binding arrangement. The IPSASB concluded that the impact of specific factors on the assessment of enforceability will be specific to each jurisdiction and the respective binding arrangement. In other words, the principle related to enforceability of a binding arrangement remains appropriate but application of this principle in practice may vary depending on the relevant mechanisms for the entity.

BC120. The IPSASB also confirmed that the assessment of enforceability is based on the ability to enforce. This assessment is to be completed when the entity first enters into the arrangement and when a significant change in external or internal factors indicates that there may be a change in the enforceability of that binding arrangement (i.e., a change in the substance of the arrangement).

BC121. Based on these discussions, the IPSASB decided to revise guidance to emphasize that an entity should assess all relevant factors at the transaction date to determine whether the parties in the arrangement have the ability to enforce the rights and obligations in the arrangement. Judgment is required to determine which factors of enforceability are more demonstrative in the respective jurisdiction and binding arrangement. The IPSASB decided to provide additional authoritative guidance on the concept of enforceability in a binding arrangement.

Enforceability through Equivalent Means

BC122. The IPSASB noted that some binding arrangements in the public sector are enforceable not by legal means but by equivalent means (i.e., “like legal”) through other enforcement mechanisms. Equivalent means of enforceability are legally binding, as described in the Conceptual Framework, and are intended to capture ways in which entities that cannot enter into legal arrangements can still enforce similar to the force of law. The CP proposed the following as possible enforcement mechanisms by equivalent means:

(a) Legislation;

(b) Cabinet and ministerial decisions; and

(c) Reduction of future funding.

BC123. The IPSASB agreed that cabinet and ministerial decisions, including executive authority, may be subsets of legislation and may in some circumstances be valid enforcement mechanisms. Paragraphs AG18–AG23 of this Standard discusses the equivalent enforcement mechanisms.

BC124. Constituents were generally supportive but questioned the validity of a reduction of future funding as an enforcement mechanism. The IPSASB decided that a reduction of future funding could only be used to enforce a binding arrangement if the resource provider had a compliance obligation to provide future funding in another binding arrangement. Without this binding arrangement and its compliance obligation, the threat

of a reduction of future funding is not a valid enforcement mechanism, as there is no future funding that could be reduced.

BC125. The IPSASB also discussed sovereign rights and agreed that by themselves, sovereign rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.

BC126. In addition, the IPSASB discussed whether economic coercion or political necessity could be a valid enforcement mechanism. The IPSASB noted that paragraph 5.17D of the Conceptual Framework states that "economic coercion, political necessity or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid a transfer of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation".

BC127. However, the IPSASB was of the view that a liability arising from a non-legally binding obligation is not equivalent to a binding arrangement for the purposes of IPSAS 47 because a non-legally binding obligation as cited in the Conceptual Framework is binding only for the party to whom the obligation exists, whereas a binding arrangement as used in IPSAS 47 requires both parties to agree to both the enforceable rights and obligations within that agreement.

BC128. The IPSASB also discussed whether a statement made by a government to spend money or use assets in a particular way (e.g., a general policy statement or announcement following a natural disaster) would create a binding arrangement for a potential resource recipient. The IPSASB decided that such an announcement does not create enforceable rights and obligations on parties as there is no agreement with other parties, and therefore there is no binding arrangement. Such an announcement may be accounted for by the government under IPSAS 19.

Determination of Stand-Alone Value

BC129. The determination of the stand-alone selling price in IFRS 15 is largely based on the price at which an entity would sell a promised good or service separately to a customer. The IPSASB noted that in the public sector, the determination of stand-alone value may be challenging in situations where an entity is providing goods or services to third-party beneficiaries for no consideration, and some may interpret the requirements for the determination of stand-alone value to only consider amounts received directly from the party receiving the goods or services. To address the issue, the IPSASB added guidance in paragraph AG110, which states that a stand-alone value in such situations shall be estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided. Where market information is not available, the stand-alone value is based on an estimate using the expected cost approach.

Capital Transfers

BC130. The CP noted that there was little guidance in IPSAS 23 on accounting for capital grants (now referred to as capital transfers). The CP gave a preliminary view from the IPSASB that accounting for capital transfers should be explicitly addressed within IPSAS, which respondents to the CP supported. This Standard includes guidance on accounting for capital transfers. The IPSASB noted that the accounting for capital transfers, which by definition arise from binding arrangements, would be the same as for any other revenue transaction from a binding arrangement: revenue from capital transfers would be recognized as the compliance obligations are satisfied.

BC131. When developing the approach above, the IPSASB decided not to adopt the IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* accounting requirements for capital transfers. This approach provides accounting for "grants related to assets" which is defined as: "Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held".

BC132. IAS 20 requires government grants to be recognized in profit or loss on a systematic basis over the period in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Under IAS 20, grants relating to assets may be presented as either deferred income or as a reduction of the carrying amount of the related asset. The grant is only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated.

BC133. The IPSASB agreed that this approach did not provide useful or representationally faithful information for users. An entity earns revenue in a capital transfer by acquiring or constructing a non-financial asset as specified in the binding arrangement from which it arises. In other words, the nature of the revenue in the capital transfer is directly associated with the acquisition or construction, rather than the subsequent use and depreciation, of the non-financial asset. The IPSASB therefore decided to develop an accounting approach for capital transfers which recognized revenue as the non-financial asset (capital asset) is either acquired or constructed as specified in the binding arrangement.

BC134. As the IPSASB revised revenue guidance in response to constituent comments on ED 70 and ED 71, the IPSASB assessed whether the accounting principles in the binding arrangement model remain appropriate for capital transfers. The IPSASB concluded that the accounting principles remain appropriate, and that revenue should be recognized as the compliance obligation to acquire or construct the non-financial asset is satisfied. The entity applying the guidance will also need to consider whether any requirement to operate the non-financial asset is an individual compliance obligation to be accounted for separately. The IPSASB revised and enhanced the Illustrative Examples to help illustrate the application of the accounting principles.

BC135. The IPSASB considered that some capital transfers may include multiple compliance obligations, one being the acquisition or construction of a capital asset and another being the operation of the capital asset in a particular way for a specified period of time. In these circumstances, the IPSASB decided that the accounting for each compliance obligation should be considered separately in accordance with the nature of each obligation.

Services In-Kind

BC136. This Standard permits, but does not require, recognition of services in-kind. This Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

BC137. However, the IPSASB encourages entities to disclose qualitative information about services in-kind received, particularly if those services were integral to the operations of the entity.

Disclosures: Materiality and Aggregation

BC138. The IPSASB also discussed the need for entities to apply the concept of materiality when providing the disclosures required by IPSAS 47. Based on feedback from constituents on previously issued IPSAS and in response to ED 70 and ED 71, the IPSASB noted that it would be helpful to include an explicit reference to

the materiality and aggregation guidance from paragraphs 45–47 of IPSAS 1. This reference was added to paragraph AG204 of IPSAS 47.

Consideration of Re-Exposure

BC139. The IPSASB considered whether there had been a substantial change to the EDs such that re-exposure may be necessary:

(a) The IPSASB discussed the differences between IPSAS 47, and ED 70 and ED 71 issued in 2020. In particular, the IPSASB noted that key differences include the revised structure of guidance, based on whether there is a binding arrangement, and the use of the term "compliance obligation" for the unit of account for revenue accounting, as summarized in BC14–BC30. The IPSASB agreed the changes made since the exposure draft process addressed issues raised by constituents, and resulted in a clearer Standard that retains the principles set out in the EDs. Thus, the IPSASB was of the view that there were no substantial changes to the substance of the guidance or the principles in the original EDs.

(b) The IPSASB noted that issuance of IPSAS 47 would address issues identified by constituents with the existing suite of revenue IPSAS. The IPSASB also agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the Standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.

BC140. Based on its assessment, the IPSASB decided to approve IPSAS 47 without re-exposure, as there were no substantial changes, and to finalize and issue the Standard, as that was in the public interest.

Revision of IPSAS 47 as a result of Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024

Introduction

BC141. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[11].

BC142. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC143. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or a right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

[11] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

BC144. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[12], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[13], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable from 2026 onwards.

BC145. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for lessees in IPSAS 47 for the concession in concessionary leases to update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC146. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) regarding the amendments to IPSAS 47, including respondents' feedback to ED 88.

Accounting for the Concession in Concessionary Leases and Right-of-Use Assets In-kind

BC147. The IPSASB noted that IPSAS 47 already has guidance on the accounting for the concession in concessionary loans. The IPSASB decided to develop similar guidance in IPSAS 47 to help preparers account for the concession in concessionary leases and right-of-use assets in-kind applying IPSAS 47 principles in a consistent way.

BC148. The IPSASB noted that some respondents to the RFI had identified in their jurisdiction arrangements that conveyed the right to use an underlying asset for zero consideration. As this type of arrangement does not meet the definition of a lease because it lacks consideration, and with the approval of IPSAS 43, the IPSASB decided to create a new type of asset -the right-of-use asset in-kind- that did not exist at the time of approval of IPSAS 47, and to amend IPSAS 47 to provide guidance on accounting for this type of arrangement.

BC149. The IPSASB decided that accounting for right-of-use assets in-kind should follow the same principles as for right-of-use assets acquired through a concessionary lease because both have types of non-cash consideration.

BC150. The IPSASB noted that the recognition of services in-kind is elected rather than a requirement. The IPSASB considered whether to allow an election for recognizing right-of-use assets in-kind. The IPSASB decided to require recognition of right-of-use assets in-kind to be aligned with the accounting of both right-of-use assets under concessionary leases and donated assets.

BC151. The IPSASB also decided to add non-authoritative guidance on access rights, arrangements allowing the right to use an asset, and shared properties for preparers to have comprehensive guidance on the types of arrangements that convey rights over assets in the public sector.

Responses to ED 88, Arrangements Conveying Rights over Assets

BC152. The majority of respondents supported the ED 88 proposals on the accounting for the concession in concessionary leases and right-of-use assets in-kind, while a minority of respondents disagreed with the ED 88 proposals.

BC153. The respondents that disagreed with the ED 88 proposals for amendments to IPSAS 47 raised mostly the same reasons as for the disagreement with the amendments to IPSAS 43 in ED 84 (see Basis for Conclusions to IPSAS 43).

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[12] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[13] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions* (Taxes and Transfers).

BC154. Several respondents requested additional guidance or clarifications on the:

(a) Subsequent measurement of the right-of-use asset in-kind in the situation where new information appears that makes it possible to recognize it;

(b) Scoping of arrangements that convey right-of-use assets in-kind; and

(c) Fact that, in concessionary leases, lessors are not required to recognize the concession but in other arrangements that convey rights over assets with concessions the transferors are required to recognize the concession.

BC155. The IPSASB decided to provide clarification in this Basis for Conclusions and not to provide more guidance in IPSAS 47 and in IPSAS 48 on the above topics for the following reasons:

(a) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors* already provides guidance on changes in accounting estimates when new information occurs;

(b) The new guidance on right-of-use assets in-kind is only related to contracts or arrangements that are in substance contracts;

(c) Both lessors in concessionary leases and transferors in other arrangements that convey rights over assets under IPSAS 48:

(i) The transfer of right-of-use assets in-kind is a transaction similar to a lease, except that there is no contractual lease payment in the transfer of right-of-use assets in-kind;

(ii) Do not have separate accounting for the concession at the inception of the arrangement because in a:

a. Concessionary finance lease, the lessor loses control of the transferred resources which entails an expense upon its derecognition;

b. Concessionary operating lease, the lessor retains control of the underlying asset, and it is consumed by the lessor as the lessee uses the asset; and

(d) Are required to disclose the costs of the asset transferred.

BC156. Some respondents suggested adding more information in the illustrative examples on how the assets will be used. The IPSASB decided not to add more information in the illustrative examples on how the assets will be used because it will not provide additional information for the accounting in the illustrative examples.

BC157. The IPSASB also considered suggestions to add an illustrative example on concessionary finance leases for lessors and guidance on donated assets and decided not to proceed with these suggestions because the accounting for these arrangements is the same as for finance leases and it was outside of the scope of ED 88 to provide illustrative examples on donated assets.

Effective Date

BC158. The IPSASB considered the effective date of the amendments to IPSAS 47 in the context of effective dates of IPSAS 43 to IPSAS 49.

BC159. The IPSASB decided that the effective date of the amendments to IPSAS 43 should be January 1, 2027, with earlier application permitted, because it:

(a) Is broadly consistent with the three-year application period of IPSAS 43 to which the amendments to IPSAS 47 are related;

(b) Does not overwhelm preparers with more changes to be effective at the same time as IPSAS 43 to IPSAS 49; and

(c) Allows preparers an additional year for planning and implementation of the amendments to IPSAS 43 and IPSAS 47 after implementing IPSAS 43 to IPSAS 49 in the previous years.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 47.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a "capital transfer"?

It depends. Public sector entities receive resources through various types of transfer transactions, in the form of cash or another asset, and which may arise with or without a binding arrangement. An entity should consider whether there are any specifications related to the transfer of the physical asset to determine whether it meets the definition of a "capital transfer" in paragraph 4 of this Standard.

A transfer of a physical asset is a "capital transfer" if the entity received this transfer within a binding arrangement and is required by the binding arrangement to use that physical asset to acquire or construct another non-financial asset that will be controlled by the entity. A transfer of a physical asset which only has a requirement to be used or operated in a specific manner would not meet the definition of a "capital transfer"; rather, such a transfer of a physical asset would constitute a "transfer" as defined in paragraph 4. An entity should clearly consider the specific terms within the binding arrangement.

Section B: Identifying the Revenue Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public sector entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the parties in the arrangement, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of revenue to ensure fair presentation of such transactions.

It is important to correctly identify whether the revenue transaction arises from a binding arrangement. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its revenue transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 11–16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation, which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the

mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Implicit or explicit consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Revenue Subject to Appropriations

How should an entity consider the impact of appropriations on its revenue transactions?

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or similar authority. Appropriations may come in different forms and vary by jurisdiction, for example as capped funding amounts, or as a tool to rescind funding at the discretion of the resource provider (which would be similar in substance to a unilateral termination clause without penalty).

Appropriations on their own do not prove nor refute the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred are subject to the completion of an appropriation process as an explicit term or condition (either in writing, orally, or implied through customary practices). In such circumstances, the entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the entity to require the resource provider to transfer resources, or, if the resource provider fails to do so, to impose consequences on the resource provider, prior to the completion of the appropriation process. The limitation (that the resources to be transferred are subject to the completion of the appropriation process) does not have substance when the entity can establish an enforceable right to those resources, before the appropriation process is completed. In such cases, the arrangement is enforceable and may be a binding arrangement.

In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of a resource provider;

(b) The exercise of that authority has occurred. In essence, a decision has been made by the resource provider under the approved enabling authority that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority together with the exercise of that authority may be sufficient for an entity to conclude that it has an enforceable right to resources in the arrangement to require the resource provider to transfer the resources or, if the resource provider fails to do so, to impose consequences on the resource provider prior to the completion of the appropriation process. In such a circumstance, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when a resource provider has lost its discretion to avoid proceeding with the transfer of resources. In such a circumstance, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 4. If it meets the definition, the entity accounts for revenue arising from the binding arrangement in accordance with paragraphs 56–147.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with IPSAS 41, *Financial Instruments*. For example, an entity that completely satisfied its compliance obligation and has an unconditional right to consideration would partially impair and derecognize its receivable asset if it intends to only enforce a portion of its right (and does not expect to reverse this decision), but would fully impair and derecognize the asset if it fully loses the ability to enforce its right due to legislative changes. The respective impairment loss would be recognized in accordance with IPSAS 41.

Section C: Revenue from Transactions without Binding Arrangements

C.1 Recognition of Revenue from Various Types of Taxes

What is the taxable event that triggers the recognition of revenue from various types of taxes levied in a jurisdiction?

An entity recognizes revenue from a transaction without binding arrangements when it receives or has the right to receive an inflow of resources that meets the definition of an asset (paragraphs 18–25), and there are no unsatisfied enforceable obligations associated with those resources (paragraph 29).

Resources arising from taxes that are presently controlled by the entity as a result of past events meet the definition of an asset. An entity should assess the taxation law in its own jurisdiction to determine the past event for these transactions (i.e., the taxable event), and consider all relevant facts and circumstances to determine when tax revenue should be recognized. The following table provides a non-exhaustive list of examples of tax revenues, and the likely taxable event (unless otherwise specified in laws and/or regulations):

Revenue Type	Likely Taxable Event
Tax on personal income earned within a jurisdiction.	The earning of assessable income by taxpayers in the current reporting period.
Tax imposed on businesses for the value added from sales of goods or services.	The sale of value-added goods or services (i.e., undertaking of taxable activity) during the reporting period.
Tax imposed on sales of goods or services.	The sale of taxable goods or services during the reporting period.
Duty on imports of specific goods to ensure that domestically produced goods are cheaper in the retail market.	The movement of goods subject to duties across the customs boundary during the reporting period.
Duty on taxable property.	The death of the person owning taxable property.
Tax on assessed property within a jurisdiction.	The passing of the date on which the taxes are levied, or the period for which the tax is levied (if the tax is levied on a periodic basis).

C.2 Measurement of Revenue from Various Types of Taxes

How does an entity measure the amount of revenue it has earned from its tax transactions without binding arrangements?

In many circumstances, the taxation period will not coincide with the entity's reporting period. An entity may also receive estimated tax payments in installments on a periodic basis before the taxable amount is finalized, which may require additional taxes owed, or a refund to the taxpayer for any excess. An entity shall recognize the inflow of resources (or the right to an inflow of resources) as an asset, and recognize revenue earned in the current reporting period, to the extent that it can be reliably measured. The best estimate is consistent with the most likely amount (see paragraphs 45–50).

To reliably measure the asset and revenue, the entity should consider all relevant data from various sources to arrive at its best estimate. Paragraph 46 describes factors that an entity should take into account in its estimation models. Sources of relevant data and inputs for an entity's estimation model include, but are not limited to: historical data (e.g., collection history and other taxation statistics), observable and other phenomena (e.g., forecasts, economic and banking statistics, installments), and the use of experts.

Estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Section D: Revenue from Transactions with Binding Arrangements

D.1 Identifying Compliance Obligations in a Binding Arrangement

Binding arrangements in the public sector vary substantially. Some binding arrangements may require the entity, as the resource recipient, to achieve a specific holistic service objective, while other binding

arrangements may impose requirements related to specific goods and services. How does an entity determine the individual compliance obligations in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

A binding arrangement has at least one compliance obligation. A compliance obligation, as defined in paragraph 4, is a unit of account to determine distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of revenue. An entity must use professional judgment as it applies paragraphs 68–77 to determine the individual compliance obligations in its binding arrangement.

An entity should first identify all of the promises in its binding arrangement to use resources in a specified manner. Promises are goods or services promised in a binding arrangement with a resource provider, and may be explicit or implicit in the binding arrangement. A promise may require the entity to use resources internally for a good or service, or to transfer a good or service to an external party or parties (i.e., the purchaser or third-party beneficiary). A thorough assessment is necessary to identify all promises of goods or services in the binding arrangement (paragraphs 71–72).

An entity then considers each identified promise to determine if a promise is itself a compliance obligation, or whether it should be grouped with other promises to be a compliance obligation. In other words, a compliance obligation is a unit of account that represents a distinct promise or distinct group of promises to which recognition criteria and measurement concepts are applied (paragraph 73). A good or service (or a bundle of goods or services) promised in a binding arrangement is distinct if both criteria are met:

(a) The promised good or service (or a bundle of goods or services) is *capable of being distinct*; and

(b) The promise is *distinct within the context of the binding arrangement*.

Whether a good or service is *capable of being distinct* is generally based on the characteristics of the good or service (see paragraph 75 for additional guidance). However, determining whether the promise is *distinct within the context of the binding arrangement* will require judgment to ensure that the grouping of promises, and thus identification of individual compliance obligations, will meaningfully represent the nature of the entity's transaction with the resource provider and provide a useful depiction of the entity's performance (see paragraph 76 for additional guidance).

Any distinct promise, or distinct group of promises, identified by the entity through this analysis would be an individual compliance obligation.

In cases where multiple parties are involved in the arrangement, the entity will also need to consider whether the nature of its promise in a compliance obligation indicates that the entity is a principal or agent (in accordance with paragraphs AG117–AG125).

D.2 Satisfaction of Compliance Obligations: Methods of Measuring Progress

When an entity satisfies a compliance obligation over time, how does it determine a measure of progress that depicts the entity's performance to satisfy its compliance obligation?

Methods of measuring progress include output methods and input methods (see paragraphs AG86–AG95). After the entity identifies its compliance obligations in its binding arrangement, an entity shall consider the nature of the entity's promise and the specific terms of the binding arrangement to determine the appropriate method of measuring progress.

An entity may first consider all observable and available information associated with satisfying the compliance obligation. This information would be useful for all parties in the binding arrangement to confirm whether the terms of the binding arrangement are being met, and may be explicitly required in the binding arrangement. Observable and available information includes, but is not limited to:

(a) The performance of specified activities;

(b) The incurrence of eligible expenditures;

(c) The requirement to track progress towards achieving outlined milestones;

(d) The production or delivery of specific quantities of goods or services; and

(e) The volume of resources consumed (e.g., labor, materials, machine hours, etc.).

Some types of information are output methods (as they are based on the outputs and outcomes from the satisfaction of the compliance obligation), while other types of information are input methods (as they are based on the entity's efforts or inputs into the satisfaction of the compliance obligation).

The entity should use professional judgment to determine what information, and thus method of measuring progress, most faithfully depicts the entity's performance towards complete satisfaction of the compliance obligation. In making this assessment, the entity should also consider which method of measuring progress:

(a) Better reflects the nature and intent of the entity's promise in the binding arrangement;

(b) More clearly captures the relationship with, and communicates the progress toward, the satisfaction of the compliance obligation;

(c) Uses information that is more reliable and directly observable;

(d) Reflects all relevant performance associated with satisfying the compliance obligation; and

(e) Provides benefits that outweigh the costs of obtaining and tracking the necessary information.

There may be situations in the public sector where resources are passed through a series of entities before being received by the ultimate resource recipient. In these situations, where the entity is one of multiple parties involved in the arrangement, the entity will need to consider whether the nature of its promise and satisfaction of its compliance obligation depends on satisfaction by other parties in the binding arrangement, thereby informing revenue recognition as a principal or agent.

D.3 Satisfaction of Compliance Obligations: Measuring Progress for Capital Transfers

Public sector entities often receive capital transfers for multi-year capital projects. These projects generally include multiple stages of completion and deliverables. Are different principles required to measure an entity's progress on capital transfers?

No. Capital transfers, which arise from transactions with binding arrangements, typically include substantial detail about the various stages in the project (e.g., conception and planning, design, procurement, construction, etc.). As such, these binding arrangements typically entail a large range of available information related to the inputs and outputs of the transaction. For example, the binding arrangement may include specific detailed activities related to the construction, such as clearing the site, building foundations and framing, and pouring concrete. However, the application of the accounting principles for capital transfers is consistent with the accounting for other revenue transactions with binding arrangements. The entity must first identify the individual compliance obligations in the binding arrangement, and carefully determine the appropriate measure of progress for each compliance obligation. The entity shall apply the accounting guidance in paragraphs 98–104 and paragraphs AG86–AG95 to consider all observable and available information. The use of professional judgment is crucial in determining what information, and thus method of measuring progress, most faithfully depicts the entity's progress to fully satisfy the compliance obligation. An entity should also consider revenue recognition independently from the timing of the receipt of resources from the resource provider.

D.4 Allocation Based on Stand-Alone Values

An entity is required to allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis. However, stand-alone value is not always directly observable, and must then be estimated. How should a public sector entity determine the suitable method for estimating the stand-alone value of a good or service?

To estimate stand-alone value, an entity shall first consider all reasonably available information (including, but not limited to, reasonably available data points, entity-specific factors, information about the resource provider or class of resource provider, and the effects of market considerations where relevant).

Based on the reasonably available information, the entity shall determine which method for estimating the stand-alone value most faithfully represents the value of the goods or services promised in the binding arrangement. Paragraph 139 includes examples of suitable methods for estimating the stand-alone value and is not a prescriptive list.

The most suitable method will depend on the quality and type of information available to the entity. For example, the adjusted market assessment approach may be more suitable when the binding arrangement promises goods or services that are readily available in the market, as the price that other entities in the market would be willing to pay may provide a proxy for the value of those goods or services in the binding arrangement. However, the expected cost approach may be more suitable when the binding arrangement promises goods or services that are unique to the entity or the binding arrangement, or which are not readily available in the market. In such cases, the entity's expected costs of satisfying a compliance obligation may provide a more useful estimation of the value of the goods or services in the binding arrangement.

The entity shall be comprehensive in its assessment to maximize the use of observable inputs and be consistent in its application of estimation methods to similar circumstances.

Paragraph 139 also notes that the entity may incorporate a margin in its estimation approach, if appropriate. This may occur if the public sector entity has engaged in a revenue transaction that is exchange-type in nature.

Section E: Multi-Year Arrangements

E.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognize revenue from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (i.e., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements are longer term, the application of accounting principles is consistent with the accounting for other revenue transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in the applicable accounting model to reflect the substance of the transaction. The entity shall consider whether an inflow, or a right to a future inflow, of resources gives rise to an asset in accordance with paragraphs 18–25, and carefully consider revenue recognition independently from the timing of funding when applying paragraph 29 (if without a binding arrangement) or paragraphs 87-104 (if with a binding arrangement). The entity may need to consider whether any expected inflow of resources in subsequent years meets the definition of an asset, and whether it is interdependent and inseparable from any associated unsatisfied obligations in accordance with paragraph AG57.

Section F: Subsequent Measurement

F.1 Subsequent Measurement for Non-Contractual Receivables

How should an entity subsequently account for receivables from revenue transactions arising outside of contracts?

An entity may recognize a contractual receivable (i.e., a receivable asset that arises from a contract) or a non-contractual receivable. A non-contractual receivable is a receivable asset that does not arise from a contract, such as a binding arrangement that is not a contract or a revenue transaction that is not a binding arrangement (e.g., taxes and other statutory receivables).

After initial recognition, a contractual receivable, which meets the definition of a financial asset per IPSAS 28, *Financial Instruments: Presentation*, is subsequently measured by applying IPSAS 41.

A non-contractual receivable does not strictly meet the definition of a financial asset because it does not arise from a contract. While non-contractual receivables and contractual receivables arise from different types of arrangements, they are consistent in substance and risk exposure, and non-contractual receivables should be subsequently measured by applying IPSAS 41 by analogy to ensure that transactions with the same substance are accounted for using consistent principles. When applying IPSAS 41 principles by analogy, the entity should use judgment to consider the substance of the receivable, and all relevant and readily available data, to form the basis of the revenue “contract by analogy” for which it has a receivable (e.g., legislation, payment terms, etc.). To determine whether its non-contractual receivable meets the criteria in paragraph 40 of IPSAS 41 to be subsequently measured at amortized cost, the entity should consider whether it holds the receivable to collect expected cash flows (in lieu of contractual cash flows) which represent its right to consideration in the transaction. If met, the entity should consider inputs into its impairment analysis under IPSAS 41 accordingly to ensure it appropriately reflects the economic substance of the receivable, including but not limited to the passage of time before the consideration is collectable (i.e., maturity period) and any receivable amounts the entity no longer expects to collect (i.e., expected credit losses). If the criteria in paragraph 40 of IPSAS 41 are not met, the entity would subsequently measure the non-contractual receivable at fair value in accordance with paragraph 31 of this Standard.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 47.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 47, *Revenue*, to particular revenue transactions on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 47.

Scope

IE1A. Examples 0A–0C illustrate the requirements in paragraph 3(d) of IPSAS 47 to assess whether the arrangement is in the scope of IPSAS 47, rather than in the scope of IPSAS 43, Leases.

Example 0A – Access Rights

IE1B. *A Government Agency (Entity) enters into an arrangement with a public sector entity (Customer) to convey the right of access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its operations. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.*

IE1C. The Entity has determined that this arrangement is not a lease because there are no identified assets as the assets may be determined by the Entity.

IE1D. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide access to the land and small station cabins (as may be determined by the Entity), in exchange for an enforceable right to receive payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0B – Arrangements Allowing the Right to Use an Asset

IE1E. *Municipality A (Entity) enters into an arrangement to provide Government Agency X (Customer) the right to use the Entity's properties, which are specifically designed to deliver education services as part of a national program for certifying the qualifications of the labor force, in exchange for transaction consideration that is paid monthly. The arrangement is for a period of seven years. Throughout the seven-year period, the Entity can and will change the buildings where the certification occurs according to its needs, as long as it gives the Customer a 30-day notice for the Customer's planning purposes.*

IE1F. The Entity has determined that this arrangement is not a lease because the Entity has substantive substitution rights.

IE1G. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide the right to use its properties for the Customer to deliver education services in exchange for an enforceable right to receive payments from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0C – Shared Properties

IE1H. *Municipality A (Entity) enters into an arrangement with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it for its own activities. The Customer pays transaction consideration upfront to the Entity each month, based on the number of days it plans to use the office space.*

IE1I. The Entity has determined that this arrangement is not a lease because the Entity has not transferred to the Customer the right to obtain substantially all of the economic benefits or service potential from the use of the floor.

IE1J. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to share the use of the office space with the Customer, in exchange for an enforceable right to payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Identify the Revenue Transaction

IE2. Examples 1–2 illustrate the requirements in paragraphs 9–16 of IPSAS 47 on the determination of whether an entity has entered into a revenue transaction with or without a binding arrangement.

Example 1 – Transaction Arose from an Arrangement that is Not Binding

Case A – No Obligations, No Specified Time Period, and No Reporting to the Government

IE3. A social development entity (the Entity) receives funding of CU5[14] million from a government body (the Government) to fund its employment programs. The agreement requires funding to be spent on programs with the goal of improving employment in the region. If the Entity incurs expenditures to improve employment in the region, it is able to enforce its right to receive funding from the Government. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how the Government will receive or verify information on how the funds were spent.

IE4. The Entity concludes that the funding agreement is not a binding arrangement in accordance with paragraph 4 of IPSAS 47. Although the Entity has an enforceable right to resources from the Government if it incurs eligible expenditures, it does not have an enforceable obligation because the Government does not have the ability to enforce how the Entity uses funds in a specific way (e.g., specific programs) or within a specific time period. The Government also has no realistic way to enforce the requirement to spend all of the funds. As a result, the entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue from a transaction without a binding arrangement.

Case B – Specified Time Period to Spend Funds

IE5. The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period. In this scenario, the requirement to spend the CU5 million within five years does not change the Entity's conclusion that it has an enforceable right in the funding agreement, but does not have an enforceable obligation. This is because the Government is not able to confirm if and when the Entity spends the funds as stated in the agreement. As a result, this arrangement is not binding and the Entity shall apply the accounting principles in paragraphs 18–55 to account for this revenue.

[14] In these examples, monetary amounts are denominated in 'currency units' (CU).

Case C – Specified Time Period to Spend Funds and Specific Reporting to the Government is Required

IE6. The same facts as in Case B apply to Case C, except the agreement also specifies how the Entity is to report its spending to the Government, and that any misused or unused funds are to be returned to the Government. The Entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving employment in the region. The Entity concludes that it has both an enforceable right and an enforceable obligation. This is because the Government is able to confirm and enforce its requirement for the Entity to spend the funds on improving employment in the region within the five-year period. The Entity shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Example 2 – Research Grant Arising from a Binding Arrangement

IE7. A research lab (the Lab) enters into an arrangement and receives CU10 million from a local government (the Government) to conduct research into a potential cure for a widespread disease. This research project is expected to result in the development of intellectual property that consists of a drug formula and manufacturing knowhow. The agreement contains specific and measurable milestones that must be met by the Lab; if these milestones are not met, the Lab is required to return all, or a portion, of the funds to the Government. Once the research is complete, there is no requirement in the agreement for the Lab to transfer the findings or any resulting intellectual property to the Government. The Lab is also able to ensure that payment is received from the Government for research work planned or completed.

IE8. Based on these terms, the Lab has concluded that the agreement is a binding arrangement in accordance with paragraph 4 of IPSAS 47, as it has an enforceable obligation to conduct the research project in accordance with the specified milestones in order to retain the funds, and an enforceable right to consideration for conducting this research project. The Lab shall apply the accounting principles in paragraphs 56–147 to account for this revenue from a transaction with a binding arrangement.

Enforceability

IE9. Examples 3–7 illustrate the requirements in paragraphs AG14–AG25 of IPSAS 47 on enforceability, which complement the requirements in paragraphs 11–14.

Example 3 – Enforceability by Legal Means

IE10. Pursuant to a ministerial directive, a state government (the Government) signed a memorandum of understanding with the Department of Public Works (Public Works), for Public Works to receive funds to build a government office building. The memorandum is not binding in the court of law, does not impose a refund obligation for Public Works in the event that it fails to perform under the terms of the memorandum, nor does it refer to any other enforcement mechanisms. Although the memorandum is not legally binding, the Government and Public Works relied upon it during their contract negotiations. Public Works commenced providing construction services in accordance with the terms of the memorandum of understanding. In addition, Public Works has reported to the Government on its first month of work, and the Government has accepted the work performed to date.

IE11. The parties have relied on the memorandum of understanding, as follows:

(a) Public Works has performed construction services in accordance with the terms of the memorandum; and

(b) The work performed to date has been reported to and accepted by the Government.

IE12. Thus, the memorandum is enforceable by law in the parties' jurisdiction based on the concept of promissory estoppel. That is, the Government has the right to use its court of law to ensure that Public Works satisfies the promises in the memorandum or seek redress should they not be satisfied. Similarly, Public Works has

the right to use the court of law to enforce the receipt of funds from the Government for work performed to date. As a result, the memorandum is considered enforceable through legal means in accordance with paragraphs AG14–AG18 of IPSAS 47.

Example 4 – Arrangement does not include an Enforceable Obligation

IE13. The national government (the Government) transfers 200 hectares of land in a major city to a university (the University) to establish a university campus. The arrangement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus or incur another form of compensation.

IE14. The University recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The University considers paragraphs AG14–AG25 of IPSAS 47 and concludes that the arrangement does not include an enforceable obligation because there is no mechanism to ensure that the University uses the land for a campus, and thus is not a binding arrangement. The University recognizes revenue when it recognizes the land as an asset in accordance with IPSAS 45, *Property, Plant, and Equipment*.

Example 5 – Enforceable Right to Revenue of Aid Agency

Case A – Right to Receive Resources is not Enforceable

IE15. Green-Aid Agency (Agency) is an intergovernmental organization which relies on annual funding from a group of governments to deliver on its initiatives. The Agency has a signed agreement with the government of a sovereign state (State) which specifies the percentage of the Agency's approved budget that the State will fund in 20X2. The agreement indicates that the funds received from the State can only be used to incur eligible expenditures, per the approved 20X2 budget. If funds are not used to incur eligible expenses (e.g., misused or unused), such funds must be repaid to the State at the end of its financial year on December 31, 20X2. The Agency's budget is approved in the preceding October.

IE16. As a result of the terms and conditions in the signed arrangement, the State is able to enforce the appropriate use and any repayment of funds provided to the Agency. The Agency therefore has an enforceable obligation to use resources received from the State for the eligible expenditures approved in the budget year, which meets the definition of a liability.

IE17. Based on past experience, the State is very unlikely to pay what it owes, either during the financial year or at any future time, and the Agency is not able to force the State to pay any amounts owed. Therefore, the Agency does not have an enforceable right to receive an inflow of resources from the State and the arrangement is not binding. The Agency will only recognize an asset when it receives and controls the inflow of resources from the State.

Case B – Right to Receive Resources is Enforceable

IE18. The same facts as Case A apply to Case B, except the Agency is able to prevent the State from participating in the Agency's voting processes if it does not transfer resources in accordance with the signed arrangement after the budget is approved. In this scenario, the Agency has the ability to enforce its right to receive resources (i.e., an enforceable right). As a result, each party in the arrangement has both an enforceable right and an enforceable obligation, and the arrangement is thus a binding arrangement.

Example 6 – Obligation in a Revenue Arrangement is not in Substance Enforceable

IE19. National Park Department of Country A (the Department) enters into an arrangement and receives a transfer of CU500,000 from the Bilateral Aid Agency of Country B (the Agency). The arrangement specifies that the transferred resources are required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, and returned to the Agency if the money is not used for the stated purpose. The terms

of the agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that the Department has received a transfer of this type from this Agency. In prior years, the transferred resources have not been used as specified; rather, they have been used to acquire additional land adjacent to national parks for expansion purposes. The Department has not conducted any rehabilitation of deforested areas in the past thirteen years. The Agency is aware of the previous breaches of the agreement terms.

IE20. The Department analyzes the transaction and concludes that, although the terms of the agreement are enforceable, such terms do not in substance hold the Department accountable to using the transfer as specified. This is because the Agency has not previously enforced the requirements of its transfers, and given no indication that it ever would. Thus, the arrangement includes the form but not the substance of an enforceable obligation (see paragraph AG25), and the arrangement would not be a binding arrangement. Therefore, the Department recognizes an increase in an asset (for the transfer received) and revenue.

Example 7 – Revenue Subject to Completion of the Appropriations Process

IE21. A national government (Government N) and local government (Government L) both have a financial year end of December 31. On March 15, 20X2, Government N enters into a two-year arrangement with Government L to transfer CU15 million (CU10 million in 20X2 and CU5 million in 20X3) to Government L, to be used to reduce air pollution in accordance with Government N's policy. The arrangement includes a term that it is subject to the completion of the appropriation process.

IE22. Parliament completes the appropriation process for CU10 million on March 31, 20X2, and transfers the resources on April 15, 20X2. The appropriation for CU5 million is not completed in March 20X2 but is considered at a later date as part of the appropriation process for 20X3. Once resources are transferred, Government L is required to use the resources to reduce air pollution or be required by law to repay, which constitutes an enforceable obligation.

Case A – Requirement to Complete the Appropriation Process has Substance

IE23. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires Government N to fund such initiatives. The arrangement is clear that the funding is subject to the completion of the appropriation process, which is not certain, and that the amount may be reduced. Government L applies paragraphs AG14–AG25 of IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE24. Government L considers substance over form to determine the effect of this term. Government L concludes that it is not able to require Government N to transfer resources nor impose consequences of not doing so. Consequently, the term has substance, and Government L does not have an enforceable right to resources until the appropriation process is completed for each year's amount. The enforceable right to resources would meet the definition of an asset on March 31, 20X2 when the appropriation process is completed, and the arrangement now meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 31, 20X2 because the binding arrangement is wholly unsatisfied.

IE25. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability, when it receives the resources. It does not recognize an asset for the CU5 million, as the appropriation process for the 20X3 amount has not been completed. Government L considers whether to disclose the CU5 million as a contingent asset in accordance with paragraph 24 in the 20X2 notes to its general purpose financial statements. Government L will assess the accounting implications of the authorization process in 20X3 for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

IE26. Authorizing legislation requires Government N to invest in measures to reduce air pollution, and the arrangement is a firm commitment by Government N to meet its legislative obligations by investing in specific measures, set out in the arrangement, to be undertaken by Government L. Government L applies paragraphs AG14–AG25 of IPSAS 47 to determine whether its right is enforceable, given the term in the arrangement that the funding is subject to the completion of the appropriation process.

IE27. Government L considers substance over form to determine the effect of this term. Government L concludes that it has an enforceable right prior to the completion of the appropriation process because the legislation to invest in measures to reduce air pollution provides enforceability through equivalent means. Consequently, the term does not have substance. Thus, Government L has an enforceable right to resources on March 15, 20X2, which would meet the definition of an asset and the arrangement meets the definition of a binding arrangement. However, Government L would not recognize an asset or liability in its statement of financial position as at March 15, 20X2 because the binding arrangement is wholly unsatisfied.

IE28. On April 15, 20X2, Government L recognizes an asset of CU10 million, and an equivalent liability. It does not recognize an asset for the CU5 million. Government L will assess the accounting implications of the authorization process in 20X3 for the remaining CU5 million.

Revenue from Transactions without Binding Arrangements

Example 8 – Advance Receipts of Income Tax

IE29. The Government levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the Government.

IE30. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year because the taxable event is the earning of income during the taxation period, which has not commenced. The Government recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts) in accordance with paragraph 44 of IPSAS 47.

Revenue from Transactions with Binding Arrangements

Criteria to Apply the Binding Arrangement Model

IE31. Examples 9–12 illustrate the requirements in paragraphs 56–61 of IPSAS 47 on whether to use the binding arrangement model. In addition, the following requirements are illustrated in these examples:

(a) The interaction of paragraph 146 of IPSAS 47 with paragraphs 109 and 115 of IPSAS 47 on estimating variable consideration (Examples 10–11); and

(b) Paragraph AG180 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 12).

Example 9 – Collectability of the Consideration

IE32. A local government (the Government) has a portfolio of properties that are rented at below-market prices to qualifying residents (Residents). After a number of years, a Resident is able to purchase the unit as part of a

rent-to-own housing program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the Resident. The program allows the Residents to pay the price over a period of 20 years, but the payments may cease once Residents have reached the age to begin collecting their superannuation, and the future payments will depend on the Resident's level of income at that time. At the inception of the binding arrangement to purchase the unit, a Resident is required to pay a non-refundable deposit of CU5,000 and enter into a long-term financing agreement with the Government for the remaining balance of the promised consideration.

IE33. As part of this rent-to-own program, the Government enters into a binding arrangement with a Resident for the sale of a residential unit with a market price of CU400,000. Up to the time of the purchase, the Resident had cumulatively paid CU150,000 in rent to the Government, so the purchase price for the unit was CU250,000. The Resident pays the non-refundable deposit of CU5,000 at the inception of the binding arrangement and enters into a long-term financing agreement with the Government for the remaining CU245,000 of the promised consideration. However, the Resident is only expected to pay CU180,000 (including the CU5,000 deposit) until they begin to collect their superannuation, and at that time, their expected level of income will result in payments ceasing. The Resident obtains control of the unit at the inception of the binding arrangement and payment of the CU5,000 deposit.

IE34. In assessing whether the binding arrangement meets the criteria in paragraph 56 of IPSAS 47, the Government concludes that the criterion in paragraph (e) of IPSAS 47 is not met for the full CU250,000 because it is not probable that it will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the Government observes that the Resident may only pay up to CU180,000 based on the terms of the program.

IE35. Because the criteria in paragraph 56 of IPSAS 47 are not all met, the Government applies paragraphs 58 and 81–86 of IPSAS 47 to determine the accounting for the non-refundable deposit of CU5,000. The Government observes that the events described in paragraph (a) have occurred—that is, the Government has transferred control of the building to the Resident, and the Government has no obligation to transfer additional goods or services for the CU5,000 payment received, and the payment is non-refundable. Consequently, in accordance with paragraph 58, the Government recognizes the non-refundable CU5,000 payment as revenue upon receipt.

Example 10 – Consideration is not the Stated Price—Implicit Price Concession

IE36. A government pharmaceutical agency (the Agency) provides 1,000 units of a prescription drug to a hospital for promised consideration of CU1 million. The price of the drugs is regulated, so the Agency has no discretion on pricing. The Agency expects that it will not be able to collect from the hospital the full amount of the promised consideration due to a medical crisis occurring in the region which is diverting the hospital's resources.

IE37. When assessing whether the criterion in paragraph (e) of IPSAS 47 is met, the Agency also considers paragraphs 109 and (b) of IPSAS 47. Based on the assessment of the facts and circumstances, the Agency determines that it expects to provide a price concession and accept a lower amount of consideration from the hospital. Accordingly, the Agency concludes that the transaction consideration is not CU1 million and the promised consideration is variable. The Agency estimates the variable consideration and determines that it expects to be entitled to CU400,000.

IE38. The Agency considers the hospital's ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CU400,000 from the hospital. Consequently, the Agency concludes that the criterion in paragraph (e) of IPSAS 47 is met based on an estimate of variable consideration of CU400,000. In addition, on the basis of an evaluation of the binding arrangement terms and other facts and circumstances, the Agency concludes that the other criteria

in paragraph 56 of IPSAS 47 are also met. Consequently, the Agency accounts for the binding arrangement with the hospital, with a transaction consideration of CU400,000, in accordance with paragraphs 56–147 in IPSAS 47.

Example 11 – Compelled Revenue Transaction—Implicit Price Concession

IE39. A government hospital (the Hospital) provides medical services to an uninsured patient in the emergency room. The Hospital is required by law to provide medical services to all emergency room patients, and patients are required to pay, and the arrival of a patient in the emergency room constitutes the initiation of a binding arrangement. Because of the patient's condition upon arrival at the Hospital, the Hospital was compelled under legislation to provide the services immediately and, therefore, before the Hospital can determine whether the patient is committed to satisfying its obligation to pay for services received in exchange for the medical services provided. Consequently, the binding arrangement does not meet all of the criteria in paragraph 56 of IPSAS 47 and, in accordance with paragraph 58 of IPSAS 47, the Hospital will continue to assess its conclusion based on updated facts and circumstances.

IE40. After providing services, the Hospital obtains additional information about the patient including a review of the services provided, standard rates for such services, and the patient's ability and intention to pay the Hospital for the services provided. During the review, the Hospital notes its standard rate for the services provided in the emergency room is CU10,000. The Hospital also reviews the patient's information and, consistent with its policies, designates the patient to a purchaser class based on the Hospital's assessment of the patient's ability and intention to pay.

IE41. The Hospital considers paragraphs 109 and (b) of IPSAS 47. Although the standard rate for the services is CU10,000 (which may be the amount invoiced to the patient), the Hospital expects to accept a lower amount of consideration in exchange for the services. Accordingly, the Hospital concludes that the transaction consideration is not CU10,000 and, therefore, the promised consideration is variable. The Hospital reviews its historical cash collections from this purchaser class and other relevant information about the patient. The Hospital estimates the variable consideration and determines that it expects to collect CU1,000.

IE42. In accordance with paragraph (e) of IPSAS 47, the Hospital evaluates the patient's ability and intention to pay (i.e., the credit risk of the patient). On the basis of its collection history from patients in this purchaser class, the Hospital concludes it is probable that the Hospital will collect CU1,000 (the estimate of variable consideration). In addition, on the basis of an assessment of the binding arrangement terms and other facts and circumstances, the Hospital concludes that the other criteria in paragraph 56 of IPSAS 47 are also met. Consequently, the Hospital accounts for the binding arrangement with the patient, at a transaction consideration of CU1,000, in accordance with the requirements in IPSAS 47.

Example 12 – Reassessing the Criteria to Apply the Binding Arrangement Model

IE43. The Department of Natural Resources (the Department) issues a permit to mine minerals to a private sector mining company (the Company) in exchange for a royalty based on the amount of minerals extracted. At inception, the binding arrangement meets all the criteria in paragraph 56 of IPSAS 47 and the Department accounts for the binding arrangement with the Company in accordance with paragraphs 56–147 in IPSAS 47. The Department recognizes revenue when the Company's subsequent usage (i.e., extraction of minerals) occurs in accordance with paragraph AG180 of IPSAS 47.

IE44. Throughout the first year of the binding arrangement, the Company provides quarterly extraction reports and pays within the agreed-upon period.

IE45. During the second year of the binding arrangement, the Company continues to extract minerals from the property, but its financial condition declines. The Company's current access to credit and available cash on hand are limited. The Department continues to recognize revenue on the basis of the Company's extraction throughout the second year. The Company pays the first quarter's royalties but does not pay the full royalty

payments for the usage of the permit in Quarters 2–4. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41, *Financial Instruments*.

IE46. During the third year of the binding arrangement, the Company continues to use the permit issued by the Department. However, the Department learns that the Company has lost access to credit and its major customers, and thus the Company's ability to pay significantly deteriorates. The Department therefore concludes that it is unlikely that the Company will be able to make any further royalty payments for ongoing usage of the mining permit. As a result of this significant change in facts and circumstances, in accordance with paragraph 57 of IPSAS 47, the Department reassesses the criteria in paragraph 56 of IPSAS 47 and determines that they are not met because it is no longer probable that the Department will collect the consideration to which it will be entitled. Accordingly, the Department does not recognize any further revenue associated with the Company's future usage of its permit. The Department accounts for any impairment of the existing receivable in accordance with IPSAS 41.

Modifications

IE47. Examples 13–15 illustrate the requirements in paragraphs 63–66 of IPSAS 47 on binding arrangement modifications. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 68–77 of IPSAS 47 on identifying compliance obligations (Example 15);

(b) Paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration (Examples 14 and 15); and

(c) Paragraphs 144–147 of IPSAS 47 on changes in the transaction consideration (Example 14).

Example 13 – Modification of a Binding Arrangement for Goods

IE48. An intergovernmental organization (the Organization) promises to provide 1.2 million textbooks to a national government (the Government) for CU12 million (CU10 per textbook). The textbooks are transferred to the Government over a six-month period. The CU12 million is funded by the Organization's donors. The Organization transfers control of each textbook at a point in time. After the Organization has transferred control of 600,000 textbooks to the Government, the binding arrangement is modified to require the delivery of an additional 300,000 textbooks (a total of 1.5 million identical textbooks) to the Government. The additional 300,000 textbooks were not included in the initial binding arrangement.

Case A—Additional Products for a Price that Reflects the Stand-Alone Value

IE49. When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 textbooks is an additional CU2.85 million or CU9.5 per textbook. The pricing for the additional textbooks reflects the stand-alone value of the textbooks at the time of the modification to the binding arrangement and the additional textbooks are distinct (in accordance with paragraph 73 of IPSAS 47) from the original textbooks.

IE50. In accordance with paragraph 65 of IPSAS 47, the modification to a binding arrangement for the additional 300,000 textbooks is, in effect, a new and separate binding arrangement for future textbooks that does not affect the accounting for the existing binding arrangement. The Organization recognizes revenue of CU10 per textbook for the 1.2 million textbooks in the original binding arrangement and CU9.5 per textbook for the 300,000 textbooks in the new binding arrangement.

Case B—Additional Products for a Price that Does not Reflect the Stand-Alone Value

IE51. During the process of negotiating the purchase of an additional 300,000 textbooks, the parties initially agree on a price of CU8.0 per textbook. However, the Government and the donors discover that the initial 600,000 textbooks provided by the Organization contained minor misprints. The Organization promises a partial credit

of CU1.5 per textbook to compensate the donors for the poor quality of those textbooks. The Department and the donors agree to incorporate the credit of CU900,000 (CU1.5 credit × 600,000 textbooks) into the amount that the Organization will require for the additional 300,000 textbooks. Consequently, the modification to the binding arrangement specifies that the price of the additional 300,000 textbooks is CU1.5 million or CU5.0 per product. That price comprises the agreed-upon price for the additional 300,000 textbooks of CU2.4 million, or CU8.0 per textbook, less the credit of CU900,000.

IE52. At the time of modification, the Organization recognizes the CU900,000 as a reduction of the transaction consideration and, therefore, as a reduction of revenue for the initial 600,000 textbooks transferred. In accounting for the sale of the additional 300,000 textbooks, the Organization determines that the negotiated price of CU8.0 per product does not reflect the stand-alone value of the additional textbooks. Consequently, the modification to a binding arrangement does not meet the conditions in paragraph 65 of IPSAS 47 to be accounted for as a separate binding arrangement. Because the remaining textbooks to be delivered are distinct from those already transferred, the Organization applies the requirements in paragraph (a) of IPSAS 47 and accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.

IE53. Consequently, the amount recognized as revenue for each of the remaining textbooks is a blended price of CU9.33 {[(CU10 × 600,000 textbooks not yet transferred under the original binding arrangement) + (CU8.0 × 300,000 textbooks to be transferred under the modification to a binding arrangement)] ÷ 900,000 remaining textbooks}.

Example 14 – Change in the Transaction Consideration after a Modification of a Binding Arrangement

IE54. On July 1, 20X0, the Department of Defense (the Department) promises to transfer two distinct used military products, a light-armored vehicle and spare parts, to a foreign government (Government F). The light-armored vehicle is transferred to Government F at the inception of the binding arrangement and spare parts are transferred on March 31, 20X1. The consideration promised by Government F includes fixed consideration of CU1.0 million and variable consideration that is estimated to be CU200,000. The Department includes its estimate of variable consideration in the transaction consideration because it concludes that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.

IE55. The transaction consideration of CU1.2 million is allocated equally to the compliance obligation for the light-armored vehicle and the compliance obligation for spare parts. This is because both products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that requires allocation of the variable consideration to one but not both of the compliance obligations.

IE56. When the light-armored vehicle was transferred to Government F at the inception of the binding arrangement, the Department recognizes revenue of CU600,000.

IE57. On November 30, 20X0, the scope of the binding arrangement is modified to include the promise to transfer ammunition (in addition to the undelivered spare parts) to Government F on June 30, 20X1 and the price of the binding arrangement is increased by CU300,000 (fixed consideration), which does not represent the stand-alone value of ammunition. The stand-alone value of ammunition is the same as the stand-alone values of the light-armored vehicle and spare parts.

IE58. The Department accounts for the modification as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement. This is because the remaining spare parts and ammunition are distinct from the light-armored vehicle, which had transferred to Government F before the modification, and the promised consideration for the ammunition does not represent its stand-alone value. Consequently, in accordance with paragraph (a) of IPSAS 47, the consideration to be allocated to the remaining compliance obligations comprises the consideration that had been allocated to the compliance obligation for spare parts

(which is measured at an allocated transaction consideration amount of CU600,000) and the consideration promised in the modification (fixed consideration of CU300,000). The transaction consideration for the modified binding arrangement is CU900,000 and that amount is allocated equally to the compliance obligation for spare parts and the compliance obligation for ammunition (i.e., CU450,000 is allocated to each compliance obligation).

IE59. After the modification but before the delivery of spare parts and ammunition, the Department revises its estimate of the amount of variable consideration to which it expects to be entitled to CU240,000 (rather than the previous estimate of CU200,000). The Department concludes that the change in estimate of the variable consideration can be included in the transaction consideration, because it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Even though the modification was accounted for as if it were the termination of the existing binding arrangement and the creation of a new binding arrangement in accordance with paragraph (a) of IPSAS 47, the increase in the transaction consideration of CU40,000 is attributable to variable consideration promised before the modification. Therefore, in accordance with paragraph 147 of IPSAS 47, the change in the transaction consideration is allocated to the compliance obligations for the light-armored vehicle and spare parts on the same basis as at the inception of the binding arrangement. Consequently, the Department recognizes revenue of CU20,000 for the light-armored vehicle in the period in which the change in the transaction consideration occurs. Because the spare parts had not transferred to Government F before the modification to a binding arrangement, the change in the transaction consideration that is attributable to spare parts is allocated to the remaining compliance obligations at the time of the modification to a binding arrangement. This is consistent with the accounting that would have been required by paragraph (a) of IPSAS 47 if that amount of variable consideration had been estimated and included in the transaction consideration at the time of the modification of a binding arrangement.

IE60. The Department then also allocates the CU20,000 increase in the transaction consideration for the modified binding arrangement equally to the compliance obligations for spare parts and ammunition. This is because the products have the same stand-alone values and the variable consideration does not meet the criteria in paragraph 142 that require allocation of the variable consideration to one but not both of the compliance obligations. Consequently, the amount of the transaction consideration allocated to the compliance obligations for spare parts and ammunition increases by CU10,000 to CU460,000 each.

IE61. On March 31, 20X1, the spare parts are transferred to Government F and the Department recognizes revenue of CU460,000. On June 30, 20X1, the ammunition is transferred to the foreign government and the Department recognizes revenue of CU460,000.

Example 15 – Modification Resulting in a Cumulative Catch-up Adjustment to Revenue

IE62. The Department of Public Works (Public Works) enters into a binding arrangement to construct a residential building for the Department of Housing (Housing) on land owned by Housing for promised consideration of CU10 million and a bonus of CU2 million if the building is completed within 24 months. Public Works accounts for the promised bundle of goods and services as a single compliance obligation satisfied over time in accordance with paragraph (b) of IPSAS 47 because Housing controls the building during construction. At the inception of the binding arrangement, Public Works expects the following:

	CU
Transaction consideration	10,000,000
Expected costs	9,000,000
Expected surplus (10%)	1,000,000

IE63. At the inception of the binding arrangement, Public Works excludes the CU2 million bonus from the transaction consideration because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements.

IE64. Public Works determines that the input measure, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the compliance obligation. By the end of the first year, Public Works has satisfied 60 percent of its compliance obligation on the basis of costs incurred to date (CU5.4 million) relative to total expected costs (CU9 million). Public Works reassesses the variable consideration and concludes that the amount is still constrained in accordance with paragraphs 119–121 of IPSAS 47. Consequently, the cumulative revenue and costs recognized for the first year are as follows:

	CU
Revenue	6,000,000
Costs	5.400,000
Surplus	600,000

IE65. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by CU1.5 million and CU1.2 million, respectively. Total potential consideration after the modification is CU13.5 million (CU11.5 million fixed consideration + CU2 million completion bonus). In addition, the allowable time for achieving the CU2 million bonus is extended by 6 months to 30 months from the original date of inception of the binding arrangement. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, Public Works concludes that it is highly probable that including the bonus in the transaction consideration will not result in a significant reversal in the amount of cumulative revenue recognized in accordance with paragraph 119 of IPSAS 47 and includes the CU2 million in the transaction consideration. In assessing the modification to a binding arrangement, Public Works evaluates paragraph (b) of IPSAS 47 and concludes (on the basis of the factors in paragraph 76 of IPSAS 47) that the remaining goods and services to be provided using the modified binding arrangement are not distinct from the goods and services transferred on or before the date of modification to a binding arrangement; that is, the binding arrangement remains a single compliance obligation.

IE66. Consequently, Public Works accounts for the modification to a binding arrangement as if it were part of the original binding arrangement (in accordance with paragraph (b) of IPSAS 47). Public Works updates its measure of progress and estimates that it has satisfied 52.9 percent of its compliance obligation (CU5.4 million actual costs incurred ÷ CU10.2 million total expected costs). Public Works recognizes additional revenue of CU1.14 million [(52.9 percent complete × CU13.5 million modified transaction consideration) – CU6 million revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Identifying Compliance Obligations in a Binding Arrangement

IE67. Examples 16–19 illustrate the requirements in paragraphs 68–77 of IPSAS 47 on identifying compliance obligations.

Example 16 – Determining Whether Goods or Services are Distinct

Case A – Distinct Goods or Services

IE68. A government shared IT services agency (the Agency) enters into a binding arrangement with a state government (the State Government) to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The Agency provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

IE69. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 73 of IPSAS 47. The Agency observes that the software is delivered before the other goods and services, and remains functional without the updates and the technical support. The State Government can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement. Thus, the Agency concludes that the State Government can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph (a) of IPSAS 47 is met.

IE70. The Agency also considers the principle and the factors in paragraph 76 of IPSAS 47 and determines that the promise to transfer each good and service to the State Government is separately identifiable from each of the other promises (thus the criterion in paragraph (b) of IPSAS 47 is met). In reaching this determination, the Agency considers that, although it integrates the software into the State Government's system, the installation services do not significantly affect the State Government's ability to use and generate economic benefits or service potential from the software license because the installation services are routine and can be obtained from alternative providers. The software updates do not significantly affect the State Government's ability to use, and benefit or receive service potential from, the software license during the license period. The Agency further observes that none of the promised goods or services significantly modify or customize one another, nor is the Agency providing a significant service of integrating the software and the services into a combined output. Lastly, the Agency concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because the Agency would be able to satisfy its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

IE71. On the basis of this assessment, the Agency identifies four compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The software license;

(b) An installation service;

(c) Software updates; and

(d) Technical support.

IE72. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each of the compliance obligations for the installation service, software updates and technical support is satisfied at a point in time or over time. The Agency also assesses the nature of the Agency's promise to transfer the software license in accordance with paragraph AG173 of IPSAS 47.

Case B – Significant Customization

IE73. The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, the software is to be substantially customized to add significant new

functionality to enable the software to interface with other customized software applications used by the State Government. The customized installation service can be provided by other entities.

IE74. The Agency assesses the goods and services promised to the State Government to determine which goods and services are distinct in accordance with paragraph 73 of IPSAS 47. The Agency first assesses whether the criterion in paragraph (a) has been met. For the same reasons as in Case A, the Agency determines that the software license, installation, software updates and technical support each meet that criterion. The Agency next assesses whether the criterion in paragraph (b) has been met by evaluating the principle and the factors in paragraph 76 of IPSAS 47. The Agency observes that the terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation service as specified in the binding arrangement. In other words, the Agency is using the license and the customized installation service as inputs to produce the combined output (i.e., a functional and integrated software system) specified in the binding arrangement (see paragraph (a) of IPSAS 47). The software is significantly modified and customized by the service (see paragraph (b) of IPSAS 47). Consequently, the Agency determines that the promise to transfer the license is not separately identifiable from the customized installation service and, therefore, the criterion in paragraph (b) of IPSAS 47 is not met. Thus, the software license and the customized installation service are not distinct.

IE75. On the basis of the same analysis as in Case A, the Agency concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

IE76. On the basis of this assessment, the Agency identifies three compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) Software customization (which comprises the license for the software and the customized installation service);

(b) Software updates; and

(c) Technical support.

IE77. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case C – Promises are Separately Identifiable (Installation)

IE78. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of equipment and installation services. The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

IE79. The Agency identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. The Agency assesses the criteria in paragraph 73 of IPSAS 47 to determine whether each promised good or service is distinct. The Agency determines that the equipment and the installation each meet the criterion in paragraph (a) of IPSAS 47. The State Government can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers). The State Government also can generate economic benefits or service potential from the installation services together with other resources that the State Government will already have obtained from the Agency (i.e., the equipment).

IE80. The Agency further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable (in accordance with paragraph (b) of IPSAS 47). The Agency considers the principle and the factors in paragraph 76 of IPSAS 47 in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of

the factors in paragraph 76 of IPSAS 47 contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

(a) The Agency is not providing a significant integration service. That is, the Agency has promised to deliver the equipment and then install it; the Agency would be able to satisfy its promise to transfer the equipment separately from its promise to subsequently install it. The Agency has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

(b) The Agency's installation services will not significantly customize or significantly modify the equipment.

(c) Although the State Government can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because the Agency would be able to satisfy its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

IE81. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) Installation services.

IE82. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Case D – Promises are Separately Identifiable (Restrictions to a Binding Arrangement)

IE83. Assume the same facts as in Case C, except that the State Government is required to use the Agency's installation services in the binding arrangement.

IE84. The binding arrangement requirement to use the Agency's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use the Agency's installation services does not change the characteristics of the goods or services themselves, nor does it change the Agency's promises to the State Government. Although the State Government is required to use the Agency's installation services, the equipment and the installation services are capable of being distinct (i.e., they each meet the criterion in paragraph (a) of IPSAS 47) and the Agency's promises to provide the equipment and to provide the installation services are each separately identifiable (i.e., they each meet the criterion in paragraph (b) of IPSAS 47). The Agency's analysis in this regard is consistent with that in Case C.

Case E – Promises are Separately Identifiable (Consumables)

IE85. A shared IT services agency (the Agency) enters into a binding arrangement with a state government office (State Government) to provide a piece of off-the-shelf equipment (i.e., the equipment is operational without any significant customization or modification) and to provide specialized consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the Agency but are provided separately by the Agency.

IE86. The Agency determines that the State Government can generate economic benefits or service potential from the equipment together with the readily available consumables. The consumables are readily available in accordance with paragraph 75 of IPSAS 47, because they are regularly provided separately by the Agency (i.e., through refill orders to purchasers that previously purchased the equipment). The State Government can generate economic benefits or service potential from the consumables that will be delivered under the

binding arrangement, together with the delivered equipment that is transferred to the State Government initially under the binding arrangement. Therefore, the equipment and the consumables are each capable of being distinct in accordance with paragraph (a) of IPSAS 47.

IE87. The Agency determines that its promises to transfer the equipment and to provide consumables over a three-year period are each separately identifiable in accordance with paragraph (b) of IPSAS 47. In determining that the equipment and the consumables are not inputs to a combined item in this binding arrangement, the Agency considers that it is not providing a significant integration service that transforms the equipment and consumables into a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the Agency concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other. Although the State Government can generate economic benefits or service potential from the consumables in this binding arrangement only after it has obtained control of the equipment (i.e., the consumables would have no use without the equipment) and the consumables are required for the equipment to function, the equipment and the consumables do not each significantly affect the other. This is because the Agency would be able to satisfy each of its promises in the binding arrangement independently of the other. That is, the Agency would be able to satisfy its promise to transfer the equipment, even if the State Government did not purchase any consumables, and would be able to satisfy its promise to provide the consumables, even if the State Government acquired the equipment separately.

IE88. On the basis of this assessment, the Agency identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

(a) The equipment; and

(b) The consumables.

IE89. The Agency applies paragraphs 87–97 of IPSAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

Example 17 – Goods and Services are not Distinct

Case A – Significant Integration Service: Hospital Construction

IE90. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Health to build a hospital. Public Works is responsible for the overall management of the project and identifies various promised goods and services, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

IE91. The promised goods and services are capable of being distinct in accordance with paragraph (a) of IPSAS 47. That is, the Department of Health can generate economic benefits or service potential from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that Public Works regularly provides many of these goods and services separately to other purchasers, as do comparable construction entities. In addition, the Department of Health could generate economic benefits or service potential from the individual goods and services by using, consuming, selling or holding those goods or services.

IE92. However, the promises to transfer the goods and services are not separately identifiable in accordance with paragraph (b) of IPSAS 47 (on the basis of the factors in paragraph 76 of IPSAS 47). This is evidenced by the fact that Public Works provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the Department of Health has entered into a binding arrangement.

IE93. Because the criterion in paragraph (b) of IPSAS 47 is not met, the goods and services are not distinct. Public Works accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case B – Significant Integration Service: Road Trains Production and Delivery

IE94. The Department of Research Sciences (the Department) enters into a binding arrangement with a local government (the Government) that will result in the delivery of multiple highly complex, specialized road trains. The terms of the binding arrangement require the Department to establish a manufacturing process in order to produce the road trains. The specifications are unique to the Government, based on a custom design that is owned by the Government and that were developed under the terms of a separate binding arrangement that is not part of the current negotiated exchange. The Department is responsible for the overall management of the binding arrangement, which requires the performance and integration of various activities including procurement of materials, identifying and managing subcontractors, and performing manufacturing, assembly and testing.

IE95. The Department assesses the promises in the binding arrangement and determines that each of the promised road trains is capable of being distinct in accordance with paragraph (a) of IPSAS 47 because the Government can generate economic benefits or service potential from each road train on its own. This is because each road train can function independently of the other road trains.

IE96. The Department observes that the nature of its promise is to establish and provide a service of producing the full complement of road trains for which the Government has entered into a binding arrangement in accordance with the Government's specifications. The Department considers that it is responsible for the overall management of the binding arrangement and for providing a significant service of integrating various goods and services (the inputs) into its overall service and the resulting road trains (the combined output). Therefore, the road trains and the various promised goods and services inherent in producing those road trains are not separately identifiable in accordance with paragraph (b) and paragraph 76 of IPSAS 47. In this case, the manufacturing process provided by the Department is specific to its binding arrangement with the Government. In addition, the nature of the Department's performance and, in particular, the significant integration service of the various activities means that a change in one of the Department's activities to produce the road trains has a significant effect on the other activities required to produce the highly complex, specialized road trains such that the Department's activities are highly interdependent and highly interrelated.

IE97. Because the criterion in paragraph (b) of IPSAS 47 is not met, the goods and services that will be provided by the Department are not distinct. The Department accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Case C – Significant Integration Service: Emergency Response

IE98. An Emergency Aid Agency (the Agency) enters into an arrangement with an International Development Organization (the Organization) and receives CU1 million to provide emergency flood response services to the citizens in an affected region which did not have sufficient resources to respond to the crisis. The Agency has applied paragraphs 9–16 of IPSAS 47 and determined that the arrangement is a binding arrangement. Under the terms of the binding arrangement, the Agency is required to acquire blankets and shelter sheets, and to purchase various types of equipment such as water pumps, reservoirs, buckets, and brooms to provide cleanup services. The terms of the binding arrangement stated that the Agency may also need to engage in other activities or incur eligible expenditures that are not explicitly listed but are necessary to meet the overall objective of providing emergency flood response services to affected citizens. The Agency noted that, in the context of the binding arrangement, the transport and distribution of the purchased blankets and shelter sheets are not explicitly listed in the binding arrangement but would qualify as an eligible expenditure that is necessary and therefore is an implicit promised service.

IE99. The promised goods and services are capable of being distinct in accordance with paragraph (a) of IPSAS 47 because the citizens in the affected region are able to generate economic benefits or service potential from the supplies and cleanup services either on their own or together with other resources readily available.

IE100. However, the Agency determines that the promised goods and services to be transferred to the citizens are not separately identifiable in accordance with paragraph (b) of IPSAS 47 on the basis of the factors in paragraph 76 of IPSAS 47. This is because the nature of its promise in the binding arrangement is to meet the immediate emergency needs and provide prompt humanitarian assistance to citizens in the affected region. The Agency notes that in order to meet the terms of the binding arrangement, it is required to provide a significant service of integrating the goods or services (the inputs) to provide emergency flood response services (the combined output).

IE101. Because the criterion in paragraph (b) of IPSAS 47 is not met, the goods and services are not distinct. Rather, the combined bundle of goods and services in the binding arrangement is distinct. The Agency accounts for all of the goods and services promised in the binding arrangement as a single compliance obligation.

Example 18 – Transfer of Resources to Another Level of Government with Compliance Obligations

IE102. The national government (Government N) provides CU10 million to a provincial government (Government P) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for a new railroad or tramway system, and 20 percent for the purchase of rolling stock. Under the terms of the binding arrangement, the money can only be used as specified and any misused or unused amounts must be repaid to Government N. Furthermore, Government P is required to include a note in its audited general purpose financial statements detailing how the transferred resources were spent. The binding arrangement requires the resources to be spent as specified in the current year or be returned to Government N.

IE103. Government P recognizes the inflow of CU10 million as an asset, and an equivalent liability because it is required to transfer resources back to Government N if it does not satisfy the compliance obligations in the binding arrangement.

IE104. Government P notes that various goods and services not explicitly stated in the binding arrangement are required to satisfy the binding arrangement. For example, certain goods and services would be required to modernize the existing railroad and tramway system, while other goods and services would be required to build a new railroad or tramway system. Thus, Government P conducts a thorough assessment to identify all goods and services inherently promised in the binding arrangement. It then determines that the promised goods and services are capable of being distinct in accordance with paragraph (a) of IPSAS 47 because Government N can generate economic benefits or service potential from each good and service on its own or together with other readily available resources.

IE105. Considering the context of the binding arrangement, Government P observes that the nature of its promise in the binding arrangement is to use the resources in three individually specific ways rather than in a combined manner:

(a) The goods and services to modernize the existing railroad and tramway system represent a single combined output: the modernization of the existing system. Government P provides a significant service of integrating these goods and services into a single output that is separately identifiable from other goods or services in the binding arrangement. Similarly, the goods and services to build a new railroad or tramway system represent a single combined output, and the purchase of rolling stock represents a single output; and

(b) Government P is not significantly integrating these three combined outputs, nor do the outputs significantly modify, customize, or depend on each other. Rather, Government P is responsible for

generating three separately identifiable outputs in accordance with paragraphs (b) and 76 of IPSAS 47: the modernization work, the new system, and the rolling stock.

IE106. Because both criteria in paragraph 73 of IPSAS 47 are met, the binding arrangement contains three separate compliance obligations;

(a) The compliance obligation to use CU4 million for modernizing the existing railroad and tramway system;

(b) The compliance obligation to use CU4 million for a new railroad or tramway system; and

(c) The compliance obligation to use CU2 million for purchasing rolling stock.

IE107. Government P reduces the liability as or when it satisfies the compliance obligations, and recognizes revenue in the statement of financial performance of the reporting period.

Example 19 – Explicit and Implicit Promises in a Binding Arrangement

IE108. A government entity (the Government), with the objective of providing broadband internet services to citizens in rural areas, provides modem equipment to a telecommunications company (the Telecom) (i.e., the Government's purchaser) who will then resell it to members of the public (i.e., the Telecom's customers) for below-market prices.

Case A—Explicit Promise of Service

IE109. In the binding arrangement with the Telecom, the Government promises to provide maintenance services for no additional consideration (i.e., 'free') to any end customer (i.e., members of the public) who purchased a modem from the Telecom. The Government outsources the performance of the maintenance services to the Telecom and pays the Telecom an agreed-upon amount for providing those services on the Government's behalf. If the end customer does not use the maintenance services, the Government is not obligated to pay the Telecom.

IE110. The binding arrangement with the Telecom includes two promised goods or services: (a) the modem and (b) the maintenance services. The promise of maintenance services is a promise to transfer goods or services in the future and is part of the negotiated exchange between the Government and the Telecom. The Government assesses whether each good or service is distinct in accordance with paragraph 73 of IPSAS 47. The Government determines that both the product and the maintenance services meet the criterion in paragraph (a) of IPSAS 47. The Government provides the modem on a stand-alone basis, which indicates that the Telecom can generate economic benefits or service potential from the modem on its own. The Telecom can generate economic benefits or service potential from the maintenance services together with a resource the Telecom already has obtained from the Government (i.e., the modem).

IE111. The Government further determines that its promises to transfer the modem and to provide the maintenance services are separately identifiable (in accordance with paragraph (b) of IPSAS 47 on the basis of the principle and the factors in paragraph 76 of IPSAS 47). The modem and the maintenance services are not inputs to a combined item in the binding arrangement. The Government is not providing a significant integration service because the presence of the modem and the services together in this binding arrangement do not result in any additional or combined functionality. In addition, neither the modem nor the services modify or customize the other. Lastly, the modem and the maintenance services are not highly interdependent or highly interrelated because the Government would be able to satisfy each of the promises in the binding arrangement independently of its efforts to satisfy the other (i.e., the Government would be able to transfer the modem even if the Telecom (through the individual end customers) declined maintenance services, and would be able to provide maintenance services in relation to modems provided previously through other distributors). The Government also observes, in applying the principle in paragraph 76 of IPSAS 47, that the Government's promise to provide maintenance is not necessary for the product to

continue to provide significant economic benefits or service potential to the Telecom. Consequently, the Government concludes that there are two compliance obligations (i.e., the modem and the maintenance services) in the binding arrangement.

Case B—Implicit Promise of Service

IE112. Continuing with the fact pattern in Case A, the Government has historically provided maintenance services for no additional consideration (i.e., 'free') to end customers in rural areas who purchased the Government's modem from the Telecom. The Government is now rolling out a similar program to urban areas. During the negotiations on this new urban program, the Government does not explicitly promise maintenance services during negotiations with the Telecom and the final binding arrangement between the Government and the Telecom does not specify terms or conditions for those services.

IE113. However, on the basis of its customary practice, the Government determines at the inception of the new binding arrangement that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the Telecom. That is, the Government's past practices of providing these services in rural areas create valid expectations of the Government's purchasers (i.e., the Telecom) in accordance with paragraph 71 of IPSAS 47. Consequently, the Government assesses whether the promise of maintenance services is a compliance obligation. For the same reasons as in Case A, the Government determines that the product and maintenance services are separate compliance obligations.

Case C—Services are not a Promised Service

IE114. As a further variation from Cases A and B, in the binding arrangement with the Telecom, the Government does not promise to provide any maintenance services. In addition, the Government typically does not provide maintenance services and, therefore, the Government's customary practices, published policies and specific statements at the time of entering into the binding arrangement have not created an implicit promise to provide goods or services to its purchasers. The Government transfers control of the modem to the Telecom and, therefore, the binding arrangement is completed. However, before the sale to the Telecom's end customers, the Government makes an offer to provide maintenance services to any party that purchases a modem from the Telecom for no additional promised consideration.

IE115. The promise of maintenance is not included in the binding arrangement between the Government and the Telecom at the inception of the binding arrangement. That is, in accordance with paragraph 71 of IPSAS 47, the Government does not explicitly or implicitly promise to provide maintenance services to the Telecom or the end customers. Consequently, the Government does not identify the promise to provide maintenance services as a compliance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

IE116. Although the maintenance services are not a promised service in the current binding arrangement, in future binding arrangements with the Telecom or other telecommunications companies, the Government would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Recognition of Revenue Transactions with a Binding Arrangement

Satisfied Over Time or at a Point in Time

IE117. Examples 20–22 illustrate the requirements in paragraphs 92–93 and 95 of IPSAS 47 on the satisfaction of compliance obligations over time. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs (a) of IPSAS 47 for transactions with compliance obligations to use resources for goods or services internally on when an entity simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case A);

(b) Paragraphs (a) of IPSAS 47 for transactions with compliance obligations to transfer goods or services to another party on when a purchaser or third-party beneficiary simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (Example 20 Case B, and Example 21);

(c) Paragraphs (c) and 96–97 of IPSAS 47 on an entity's performance that does not create an asset with an alternative use and an entity's enforceable right to receive consideration for performance completed to date (Examples 21–22); and

(d) Paragraph 97 of IPSAS 47 on compliance obligations satisfied at a point in time (Example 22).

Example 20 – Resource Provider Simultaneously Receives and Consumes the Economic Benefits or Service Potential

Case A – Satisfaction of Compliance Obligation to Use Resources for Goods or Services Internally

IE118. A regional government (the Government) enters into a binding arrangement to provide CU1.2 million to the regional hospital network (the Hospital). The Government requires the Hospital to use the CU1.2 million in the operation of its medical imaging department.

IE119. The use of funds in the medical imaging department is a single compliance obligation in accordance with paragraph (b) of IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph (a) of IPSAS 47 because the Hospital simultaneously receives and consumes the economic benefits or service potential of the received resources as it is used. The Hospital recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Case B – Satisfaction of Compliance Obligation to Transfer Goods or Services to Another Party

IE120. A public payroll service center (the Payroll Center) enters into a binding arrangement to provide monthly payroll processing services to a local government's Department of Education (the Department) for one year.

IE121. The promised payroll processing services are accounted for as a single compliance obligation in accordance with paragraph (b) of IPSAS 47. The compliance obligation is satisfied over time in accordance with paragraph (a) of IPSAS 47 because the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the Payroll Center has provided to date also demonstrates that the Department simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance as the Payroll Center performs. The Payroll Center disregards any practical limitations on transferring the remaining compliance obligation, including setup activities that would need to be undertaken by another entity. The Payroll Center recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Example 21 – Assessing Alternative Use and Right to Consideration

IE122. The Office of the Auditor General (the Auditor) enters into a binding arrangement with a government agency (the Agency) to provide financial statement audit services that result in the Auditor providing an audit opinion to the Agency. The audit opinion relates to the accounting records and other facts and circumstances that are specific to the Agency. If the Agency were to terminate the audit for reasons other than the Auditor's failure to perform as promised, the binding arrangement requires the Agency to compensate the Auditor for its costs incurred.

IE123. The Auditor considers the criterion in paragraph (a) of IPSAS 47 to determine whether the Agency simultaneously receives and consumes the economic benefits or service potential of the Auditor's

performance. If the Auditor were to be unable to satisfy its compliance obligation and the Agency hired another audit firm to provide the opinion, the other audit firm would need to substantially re-perform the work that the Auditor had completed to date, because the other audit firm would not have the economic benefits or service potential of any work in progress performed by the Auditor. The nature of the audit opinion is such that the Agency will generate economic benefits or service potential of the Auditor's performance only when the Agency receives the audit opinion. Consequently, the Auditor concludes that the criterion in paragraph (a) of IPSAS 47 is not met.

IE124. However, the Auditor's compliance obligation meets the criterion in paragraph (c) of IPSAS 47 because the audit work completed to date would not have any alternative use, as it would be specific to the audit of the Agency. Thus, the Auditor has a compliance obligation satisfied over time because of both of the following factors:

(a) In accordance with paragraphs 96 of IPSAS 47, the development of the audit opinion does not create an asset with an alternative use to the Auditor because the audit relates to facts and circumstances that are specific to the Agency. Therefore, the Auditor cannot use the audit opinion for any other purpose.

(b) In accordance with paragraphs 97 of IPSAS 47, the Auditor has an enforceable right to receive consideration for its performance completed to date for its costs.

IE125. Consequently, the Auditor recognizes revenue over time by measuring the progress towards complete satisfaction of the compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

Example 22 – Assessing Whether a Compliance Obligation is Satisfied at a Point in Time or Over Time

IE126. The Department of Public Works (Public Works) is developing multi-unit residential complexes to be sold to the Department of Housing (Housing) as well as a variety of commercial entities. Housing enters into a binding arrangement with Public Works for specified units that are under construction. These units have a similar floor plan and are of a similar size, but other attributes of the units are different (for example, the location of the units within the complex).

Case A – Entity does not have an Enforceable Right to Consideration for Performance Completed to Date

IE127. Housing pays a deposit upon entering into the binding arrangement and the deposit is refundable only if Public Works fails to complete construction of the units in accordance with the binding arrangement. The remainder of the consideration is payable on completion of the binding arrangement when Housing obtains physical possession of the units. If Housing defaults on the binding arrangement before completion of the units, Public Works only has the right to retain the deposit.

IE128. At the inception of the binding arrangement, Public Works applies paragraph (c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works determines that it does not have an enforceable right to consideration for performance completed to date because, until construction of the units is complete, it only has a right to the deposit paid by Housing. Because Public Works does not have a right to consideration for work completed to date, its compliance obligation is not a compliance obligation satisfied over time in accordance with paragraph (c) of IPSAS 47. Instead, Public Works accounts for the sale of the units as compliance obligations satisfied at a point in time in accordance with paragraph 97 of IPSAS 47.

Case B – Entity has an Enforceable Right to Consideration for Performance Completed to Date

IE129. Housing pays a non-refundable deposit upon entering into the binding arrangement and will make progress payments during construction of the units. The binding arrangement has substantive terms that preclude Public Works from being able to direct the units to another purchaser. In addition, Housing does not have the right to terminate the binding arrangement unless Public Works fails to perform as promised. If Housing

defaults on its obligations by failing to make the promised progress payments as and when they are due, Public Works would have a right to all of the consideration promised in the binding arrangement if it completes the construction of the units. The courts have previously upheld similar rights that entitle developers to require the purchaser to perform, subject to the entity meeting its compliance obligations under the binding arrangement.

IE130. At the inception of the binding arrangement, Public Works applies paragraph (c) of IPSAS 47 to determine whether its promise to construct and transfer the units to Housing is a compliance obligation satisfied over time. Public Works determines that the units it constructs do not have an alternative use to Public Works because the binding arrangement precludes Public Works from transferring the specified units to another purchaser. Public Works does not consider the possibility of a termination of a binding arrangement in assessing whether it is able to direct the units to another purchaser.

IE131. Public Works also has a right to consideration for performance completed to date in accordance with paragraphs (a) of IPSAS 47. This is because if Housing were to default on its obligations, Public Works would have an enforceable right to all of the consideration promised under the binding arrangement if it continues to perform as promised.

IE132. Therefore, the terms of the binding arrangement and the practices in the legal jurisdiction indicate that there is a right to consideration for performance completed to date. Consequently, the criteria in paragraph (c) of IPSAS 47 are met and Public Works has a compliance obligation that it satisfies over time. To recognize revenue for that compliance obligation satisfied over time, Public Works measures its progress towards complete satisfaction of its compliance obligation in accordance with paragraphs 98–104 of IPSAS 47.

IE133. In the construction of a multi-unit residential complex, Public Works may have many binding arrangements with individual purchasers for the construction of individual units within the complex. Public Works would account for each binding arrangement separately. However, depending on the nature of the construction, Public Works' performance in undertaking the initial construction work (i.e., the foundation and the basic structure), as well as the construction of common areas, may need to be reflected when measuring its progress towards complete satisfaction of its compliance obligations in each binding arrangement.

Case C – Entity has an Enforceable Right to Consideration for Performance Completed to Date, but Binding Arrangement can be Cancelled

IE134. The same facts as in Case B apply to Case C, except that in the event of a default by Housing, either Public Works can require Housing to perform as required under the binding arrangement or Public Works can cancel the binding arrangement in exchange for the asset under construction and an entitlement to a penalty of a proportion of the agreed price in the binding arrangement.

IE135. Notwithstanding that Public Works could cancel the binding arrangement (in which case Housing's obligation to Public Works would be limited to transferring control of the partially completed units to Public Works and paying the penalty prescribed), Public Works has a right to consideration for performance completed to date because it could also choose to enforce its rights to full payment under the binding arrangement. The fact that Public Works may choose to cancel the binding arrangement in the event Housing defaults on its obligations would not affect that assessment (see paragraph AG69 of IPSAS 47), provided that Public Work's rights to require Housing to continue to perform as required under the binding arrangement (i.e., pay the promised consideration) are enforceable.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

IE136. Examples 23–24 illustrate the requirements in paragraphs 98–104 of IPSAS 47 on measuring progress towards complete satisfaction of a compliance obligation satisfied over time. Example 24 also illustrates the

requirements in paragraph AG95 of IPSAS 47 on uninstalled materials when costs incurred are not proportionate to the entity's progress in satisfying a compliance obligation.

Example 23 – Measuring Progress when Making Goods or Services Available

IE137. A local government (the Government) owns and manages public swimming pools and enters into a binding arrangement with a member of the public for one year of access to any of its pools. The member of the public has unlimited use of the pools and promises to pay an access fee of CU100 per month.

IE138. The Government determines that its promise to the member of the public is to provide a service of making the pools available for the member of the public to use as and when the member of the public wishes. This is because the extent to which the member of the public uses the pools does not affect the amount of the remaining goods and services to which the member of the public is entitled. The Government concludes that the member of the public simultaneously receives and consumes the economic benefits or service potential of the local government's performance as it performs by making the pools available. Consequently, the Government's compliance obligation is satisfied over time in accordance with paragraph (a) of IPSAS 47.

IE139. The Government also determines that the member of the public consumes economic benefits or service potential from the Government making the pools available throughout the year. That is, the member of the public benefits from having the pools available, regardless of whether the member of the public uses it or not. Consequently, the Government concludes that the best measure of progress towards complete satisfaction of the compliance obligation over time is an output method, specifically a time-based measure, and it recognizes revenue on a straight-line basis throughout the year at CU100 per month.

Example 24 – Measuring Progress for Uninstalled Materials

IE140. In November 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a 3-storey building and install new elevators for a total consideration of CU5 million. Public Works concluded that the promised refurbishment service, including the installation of elevators, is a single compliance obligation satisfied over time. Total expected costs are CU4 million, including CU1.5 million for the elevators. Public Works determines that it acts as a principal in accordance with paragraphs AG117–AG125 of IPSAS 47, because it obtains control of the elevators before they are transferred to the other department.

IE141. A summary of the transaction consideration and expected costs is as follows:

	CU
Transaction consideration	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

IE142. Public Works uses an input method based on costs incurred to measure its progress towards complete satisfaction of the compliance obligation. Public Works assesses whether the costs incurred to procure the elevators are proportionate to the Public Work's progress in satisfying the compliance obligation, in accordance with paragraph AG95 of IPSAS 47. The other department obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (CU1.5 million) are significant relative to the total expected costs to completely satisfy the compliance obligation (CU4 million). Public Works is not involved in designing or manufacturing the elevators.

IE143. Public Works concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of its performance. Consequently, in accordance with paragraph AG95 of IPSAS 47, Public Works adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction consideration. Public Works recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

IE144. As of December 31, 20X2, Public Works observes that:

(a) Other costs incurred (excluding elevators) are CU500,000; and

(b) Performance is 20 percent complete (i.e., CU500,000 ÷ CU2,500,000).

IE145. Consequently, at December 31, 20X2, Public Works recognizes the following:

	CU	
Revenue	2,200,000	(A)
Cost of goods sold	2,000,000	(B)
Profit	200,000	

(A) Revenue recognized is calculated as (20 per cent × CU3,500,000) + CU1,500,000. (CU3,500,000 is CU5,000,000 transaction consideration – CU1,500,000 costs of elevators.)

(B) Cost of goods sold is CU500,000 of costs incurred + CU1,500,000 costs of elevators.

Measurement of Revenue Transactions with a Binding Arrangement

Variable Consideration

Example 25 – Estimating Variable Consideration

IE146. The Department of Public Works (Public Works) enters into a binding arrangement with the Department of Transportation (Transportation) to build a bridge. The promise to transfer the bridge is a compliance obligation that is satisfied over time. The promised consideration is CU25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 20X7 that the bridge is incomplete, the promised consideration is reduced by CU100,000. For each day before March 31, 20X7 that the bridge is complete, the promised consideration increases by CU100,000.

IE147. In addition, upon completion of the bridge, a third party will inspect the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, Public Works will be entitled to an incentive bonus of CU1.5 million.

IE148. Public Works determines that the consideration promised in the binding arrangement includes a variable amount, and estimates the amount of consideration it is entitled to in accordance with paragraphs 113–117 of IPSAS 47. In determining the transaction consideration, Public Works prepares a separate estimate for each element of variable consideration to which Public Works will be entitled using the estimation methods described in paragraph 116 of IPSAS 47:

(a) Public Works decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., CU25 million, plus or minus CU100,000 per day). This is because it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

(b) Public Works decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (CU1.5 million or CU0) and it is the method that Public Works expects to better predict the amount of consideration to which it will be entitled.

IE149. Public Works considers the requirements in paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction consideration.

The Existence of a Significant Financing Component in the Binding Arrangement

IE150. Examples 26–30 illustrate the requirements in paragraphs 123–128 of IPSAS 47 on the existence of a significant financing component in the binding arrangement. In addition, the following requirements are illustrated in Example 26:

(a) Paragraphs 119–121 of IPSAS 47 on constraining estimates of variable consideration; and

(b) Paragraphs AG96–AG103 of IPSAS 47 on sales with a right of return.

Example 26 – Significant Financing Component and Right of Return

IE151. A government entity (the Government) provides trains to a public sector subway operator (the Operator) for CU121 million that is payable 24 months after delivery. The Operator obtains control of the trains at the inception of the binding arrangement. The binding arrangement permits the Operator to return the trains within 90 days. The trains are new and the Government has no relevant historical evidence of returns or other available market evidence.

IE152. The cash price of the trains is CU100 million, which represents the amount that the Operator would pay upon delivery for the same trains provided under otherwise identical terms and conditions as at the inception of the binding arrangement. The Government's cost of the trains is CU80 million.

IE153. The Government does not recognize revenue when control of the product transfers to the Operator. This is because the existence of the right of return and the lack of relevant historical evidence means that the Government cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur in accordance with paragraphs 119–121 of IPSAS 47. Consequently, revenue is recognized after three months when the right of return lapses.

IE154. The binding arrangement includes a significant financing component, in accordance with paragraphs 123–125 of IPSAS 47. This is evident from the difference between the amount of promised consideration of CU121 million and the cash price of CU100 million at the date that the goods are transferred to the Operator.

IE155. The binding arrangement includes an implicit interest rate of 10 percent (i.e., the interest rate that over 24 months discounts the promised consideration of CU121 million to the cash price of CU100 million). The Government evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the Government and the Operator at the inception of the binding arrangement. The following journal entries illustrate how the Government accounts for this binding arrangement in accordance with paragraphs AG96–AG103 of IPSAS 47:

(a) When the trains are transferred to the Operator, in accordance with paragraph AG97 of IPSAS 47:

Asset for right to recover trains to be returned	CU80 million[15]	
Inventory		CU80 million

[15] This example does not consider expected costs to recover the asset.

(b) During the three-month right of return period, no interest is recognized in accordance with paragraph 128 of IPSAS 47 because no binding arrangement asset or receivable has been recognized.

(c) When the right of return lapses (the trains are not returned):

Receivable	CU100 million[16]	
Revenue		CU100 million
Cost of sales	CU80 million	
Asset for trains to be returned		CU80 million

IE156. Until the Government receives the cash payment from the Operator, interest revenue would be recognized in accordance with IPSAS 41. In determining the effective interest rate in accordance with IPSAS 41, the Government would consider the remaining terms of the binding arrangement.

Example 27 – Withheld Payments on a Long-Term Binding Arrangement is not a Significant Financing Component

IE157. The Department of Public Works (Public Works) enters into a binding arrangement for the construction of a building that includes scheduled milestone payments for the performance by Public Works throughout the binding arrangement term of three years. The compliance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the Public Works' expected performance. The binding arrangement provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by the resource provider throughout the binding arrangement and paid to Public Works only when the building is complete.

IE158. Public Works concludes that the binding arrangement does not include a significant financing component. The milestone payments coincide with Public Works' performance and the binding arrangement requires amounts to be retained for reasons other than the provision of finance in accordance with paragraph (c) of IPSAS 47. The withholding of a specified percentage of each milestone payment is intended to protect the resource provider from Public Works failing to adequately complete its compliance obligations under the binding arrangement.

Example 28 – Determining the Discount Rate

IE159. The Department of Communications and Information (the Department) enters into a binding arrangement with a foreign government to provide broadband internet equipment. Control of the equipment transfers to the foreign government when the binding arrangement is signed. The consideration stated in the binding arrangement is CU100 million plus a five percent rate of interest in the binding arrangement, payable in 60 monthly instalments of CU1.89 million.

Case A – Discount Rate in the Binding Arrangement Reflects the Rate in a Separate Financing Transaction

IE160. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department considers paragraph 127 of IPSAS 47 and observes that the five percent rate of interest in the binding arrangement reflects the rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest of five percent in the binding arrangement reflects the credit characteristics of the foreign government).

[16] The receivable recognized would be measured in accordance with IPSAS 41. This example assumes there is no material difference between the fair value of the receivable at the inception of the binding arrangement and the fair value of the receivable when it is recognized at the time the right of return lapses. In addition, this example does not consider the impairment accounting for the receivable.

IE161. The market terms of the financing mean that the cash price of the equipment is CU100 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the foreign government. The Department accounts for the receivable in accordance with IPSAS 41.

Case B – Discount Rate in the Binding Arrangement does not Reflect the Rate in a Separate Financing Transaction

IE162. In evaluating the discount rate in the binding arrangement that contains a significant financing component, the Department observes that the five percent rate of interest in the binding arrangement is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the Department and the foreign government at the inception of the binding arrangement (i.e., the rate of interest in the binding arrangement of five percent does not reflect the credit characteristics of the foreign government). This suggests that the cash price is less than CU100 million.

IE163. In accordance with paragraph 127 of IPSAS 47, the Department determines the transaction consideration by adjusting the promised amount of consideration to reflect the payments in the binding arrangement using the 12 percent interest rate that reflects the credit characteristics of the foreign government. Consequently, the Department determines that the transaction consideration is CU84.83 million (60 monthly payments of CU1.89 million discounted at 12 percent). The Department recognizes revenue and a loan receivable for that amount. The Department accounts for the loan receivable in accordance with IPSAS 41.

Example 29 – Advance Payment and Assessment of Discount Rate

IE164. The national government will hold an international summit in two years and needs to invest in vehicles for the event. At the conclusion of the event, the national government plans to sell the surplus vehicles. To achieve this objective, the national government enters into a binding arrangement with a state government to provide the surplus vehicles in two years (i.e., the compliance obligation will be satisfied at a point in time). The binding arrangement includes two alternative payment options: payment of CU5 million in two years when the state government obtains control of the vehicles or payment of CU4 million when the binding arrangement is signed. The state government elects to pay CU4 million when the binding arrangement is signed.

IE165. The national government concludes that the binding arrangement contains a significant financing component because of the length of time between when the state government pays for the vehicle and when the national government transfers the vehicles to the state government, as well as the prevailing interest rates in the market.

IE166. The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the national government determines that, in accordance with paragraph 127 of IPSAS 47, the rate that should be used in adjusting the promised consideration is six percent, which is the national government's incremental borrowing rate.

IE167. The following journal entries illustrate how the national government would account for the significant financing component:

(a) Recognize a binding arrangement liability for the CU4 million payment received at inception of the binding arrangement:

Cash	CU4 million	
Binding arrangement liability		CU4 million

(b) During the two years from inception of the binding arrangement until the transfer of the vehicle, the national government adjusts the promised amount of consideration (in accordance with paragraph 128

of IPSAS 47) and builds up the binding arrangement liability by recognizing interest on CU4 million at six percent for two years:

Interest expense	CU494,000[17]	
Binding arrangement liability		CU494,000

(c) Recognize revenue for the transfer of the vehicles:

Binding arrangement liability	CU4,494,000	
Revenue		CU4,494,000

Example 30 – Advance Payment

IE168. A private sector telecommunications company (the Telecom) has set up cellular phone towers on government-owned properties. Under the arrangement, access to the towers can only be made by appropriately skilled telecommunications specialists. The Telecom enters into a binding arrangement with a government entity that provides specialist telecommunications services (the Government Entity) to provide maintenance and repair services for three years. The Telecom purchases this support service at the time of setting up the cellular phone towers. Consideration for the service is CU300,000, and the Telecom must pay for it upfront (i.e., a monthly payment option is not available).

IE169. To determine whether there is a significant financing component in the binding arrangement, the Government Entity considers the nature of the service being offered and the purpose of the payment terms. The Government Entity charges a single upfront amount, not with the primary purpose of obtaining financing from purchasers but, instead, to better manage its resources, taking into consideration the risks associated with providing the service. Specifically, if the Telecom could pay monthly, it may change to another provider of the specialist service, leaving the Government Entity with costs for which it cannot earn revenue.

IE170. In assessing the requirements in paragraph (c) of IPSAS 47, the Government Entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the Government Entity. The Government Entity charges a single upfront amount for the services because other payment terms (such as a monthly payment plan) would affect the nature of the risks assumed by the Government Entity to provide the service and may make it uneconomical to provide the service. As a result of its analysis, the Government Entity concludes that there is not a significant financing component.

Non-Cash Consideration

IE171. Example 31 illustrates the requirements in paragraphs 129–132 of IPSAS 47 on non-cash consideration, as well as the requirements in paragraph 68 of IPSAS 47 on identifying compliance obligations.

Example 31 – Entitlement to Non-Cash Consideration

IE172. A public broadcaster (the Broadcaster) enters into a binding arrangement with a private media company (the Media Company) to provide production services for one year. The binding arrangement is signed on January 1, 20X1 and work begins immediately. The Broadcaster concludes that the production services are a single compliance obligation in accordance with paragraph (b) of IPSAS 47. This is because the Broadcaster is providing a series of distinct production services that are substantially the same and have the same pattern of transfer (the production services transfer to the Media Company over time and use the same method to measure progress—that is, a time-based measure of progress).

[17] CU494,000 = CU4 million binding arrangement liability × (6 per cent interest per year for two years).

IE173. In exchange for the production services, the Media Company promises to provide the Broadcaster with the right to air one of the Media Company's popular sports programs once per week of production services.

IE174. The Broadcaster measures its progress towards complete satisfaction of the compliance obligation as each week of production service is complete. To determine the transaction consideration (and the amount of revenue to be recognized), the Broadcaster first considers the fair value of the right to air the popular sports program. However, as the right to air the program is not typically sold by the Media Company or traded in the market, the Broadcaster concludes that it cannot reasonably estimate the fair value of the non-cash consideration. As a result, the Broadcaster measures the transaction consideration indirectly by reference to the stand-alone value of the production services promised to the Media Company.

Allocation Based on Stand-Alone Values

IE175. Examples 32–34 illustrate the requirements in paragraphs 133–143 of IPSAS 47 on allocating the transaction consideration to compliance obligations. In addition, the following requirements are illustrated in these examples:

(a) Paragraph 116 of IPSAS 47 on variable consideration (Example 34);

(b) Paragraphs AG107–AG109 of IPSAS 47 on the allocation of a discount (Examples 32-33); and

(c) Paragraph AG182 of IPSAS 47 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 34).

Example 32 – Allocation Methodology

IE176. A Department of Defense (the Department) enters into a binding arrangement with another country to provide a fighter jet, specialized spare parts, and a specialized engine in exchange for CU100 million. The Department will satisfy the compliance obligations for the jet, spare parts, and engine at different points in time. The Department can provide fighter jets separately and therefore the stand-alone value is directly observable. The stand-alone values of the specialized spare parts and specialized engine are not directly observable.

IE177. Because the stand-alone values for the specialized spare parts and specialized engine are not directly observable, the Department must estimate them. To estimate the stand-alone values, the Department uses the adjusted market assessment approach for the specialized spare parts and the expected cost approach for the specialized engines. In making those estimates, the Department maximizes the use of observable inputs (in accordance with paragraph 138 of IPSAS 47). The Department estimates the stand-alone values as follows:

Product	Stand-alone value	Method
	CU (millions)	
Fighter jet	90	Directly observable (see paragraph 137 of IPSAS 47)
Spare parts	10	Adjusted market assessment approach (see paragraph (a) of IPSAS 47)
Specialized Engine	20	Expected cost approach (see paragraph (b) of IPSAS 47)
Total	120	

IE178. The other country receives a discount for purchasing the bundle of goods because the sum of the stand-alone values (CU120 million) exceeds the promised consideration (CU100 million). The Department considers whether it has observable evidence about the compliance obligation to which the entire discount belongs (in accordance with paragraph AG108 of IPSAS 47) and concludes that it does not. Consequently, in accordance with paragraphs 136 and AG107 of IPSAS 47, the discount is allocated proportionately across the fighter jet, spare parts and the specialized engine. The discount, and therefore the transaction consideration, is allocated as follows:

Product	Allocated Transaction Consideration	
	CU (millions)	
Fighter jet	75	(CU90 ÷ CU120 × CU100)
Spare parts	8	(CU10 ÷ CU120 × CU100)
Engine	17	(CU20 ÷ CU120 × CU100)
Total	100	

Example 33 – Allocating a Discount

IE179. A government procurement agency (the Agency) regularly provides common-use supplies, including Supplies A, B and C individually, to government entities. The Agency establishes the following stand-alone values:

Product	Stand-alone value
	CU
Supply A	40
Supply B	55
Supply C	45
Total	140

IE180. In addition, the Agency regularly provides Supplies B and C together for CU60.

Case A – Allocating a Discount to One or More Compliance Obligations

IE181. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C in exchange for CU100. The Agency will satisfy the compliance obligations for each of the supplies at different points in time.

IE182. The binding arrangement includes a discount of CU40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method (in accordance with paragraph AG107 of IPSAS 47). However, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of IPSAS 47.

IE183. If the Agency transfers control of Supplies B and C at the same point in time, then the Agency could, as a practical matter, account for the transfer of those supplies as a single compliance obligation. That is, the

Agency could allocate CU60 of the transaction consideration to the single compliance obligation and recognize revenue of CU60 when Supplies B and C simultaneously transfer to the government entity.

IE184. If the binding arrangement requires the Agency to transfer control of Supplies B and C at different points in time, then the allocated amount of CU60 is individually allocated to the promises to transfer Supply B (stand-alone value of CU55) and Supply C (stand-alone value of CU45) as follows:

Product	Allocated transaction consideration	
	CU	
Supply B	33	(CU55 ÷ CU100 total stand-alone value × CU60)
Supply C	27	(CU45 ÷ CU100 total stand-alone value × CU60)
Total	60	

Case B – Residual Approach is Appropriate

IE185. The Agency enters into a binding arrangement with a government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to transfer Supply D. Total consideration in the binding arrangement is CU130. The stand-alone value for Supply D is highly variable (see paragraph (c) of IPSAS 47) because the Agency provides Supply D to different purchasers for a broad range of amounts (CU15 – CU45). Consequently, the Agency decides to estimate the stand-alone value of Supply D using the residual approach.

IE186. Before estimating the stand-alone value of Supply D using the residual approach, the Agency determines whether any discount should be allocated to the other compliance obligations in the binding arrangement in accordance with paragraphs AG108–AG109 of IPSAS 47.

IE187. As in Case A, because the Agency regularly provides Supplies B and C together for CU60 and Supply A for CU40, it has observable evidence that CU100 should be allocated to those three supplies and a CU40 discount should be allocated to the promises to transfer Supplies B and C in accordance with paragraph AG108 of IPSAS 47. Using the residual approach, the Agency estimates the stand-alone value of Supply D to be CU30 as follows:

Product	Stand-alone value	Method
	CU	
Supply A	40	Directly observable (see paragraph 137 of IPSAS 47)
Supplies B and C	60	Directly observable with discount (see paragraph AG108 of IPSAS 47)
Supply D	30	Residual approach (see paragraph (c) of IPSAS 47)
Total	130	

IE188. The Agency observes that the resulting CU30 allocated to Supply D is within the range of its observable prices (CU15–CU45). Therefore, the resulting allocation (see above table) is consistent with the allocation objective in paragraph 133 of IPSAS 47 and the requirements in paragraph 138 of IPSAS 47.

Case C – Residual Approach is Inappropriate

IE189. The same facts as in Case B apply to Case C except the transaction consideration is CU105 instead of CU130. Consequently, the application of the residual approach would result in a stand-alone value of CU5 for Supply D (CU105 transaction consideration less CU100 allocated to Supplies A, B and C). The Agency concludes that CU5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its compliance obligation to transfer Supply D, because CU5 does not approximate the stand-alone value of Supply D, which ranges from CU15–CU45. Consequently, the Agency reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone value of Supply D using another suitable method. The Agency allocates the transaction consideration of CU105 to Supplies A, B, C and D using the relative stand-alone values of those products in accordance with paragraphs 133–140 of IPSAS 47.

Example 34 – Allocation of Variable Consideration

IE190. A government-owned university (the University) enters into a binding arrangement with a pharmaceutical manufacturing company (the Company) for two intellectual property licenses for two drug formulations (Formulation X and Y), developed by the University's research lab. The University determines that the formulations represent two compliance obligations each satisfied at a point in time. The stand-alone values of Formulation X and Y are CU800,000 and CU1,000,000, respectively.

Case A – Variable Consideration Allocated Entirely to One Compliance Obligation

IE191. The price stated in the binding arrangement for Formulation X is a fixed amount of CU800,000 and for Formulation Y, the consideration is three percent of the Company's future sales of the medication developed from Formulation Y. For purposes of allocation, the University estimates its sales-based royalties (i.e., the variable consideration) to be CU1,000,000, in accordance with paragraph 116 of IPSAS 47.

IE192. To allocate the transaction consideration, the University considers the criteria in paragraph 142 of IPSAS 47 and concludes that the variable consideration (i.e., the sales-based royalties) should be allocated entirely to Formulation Y. The University concludes that the criteria in paragraph 142 of IPSAS 47 are met for the following reasons:

(a) The variable payment relates specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y).

(b) Allocating the expected royalty amount of CU1,000,000 entirely to Formulation Y is consistent with the allocation objective in paragraph 133 of IPSAS 47. This is because the University's estimate of the amount of sales-based royalties (CU1,000,000) approximates the stand-alone value of Formulation Y and the fixed amount of CU800,000 approximates the stand-alone value of Formulation X. The University allocates CU800,000 to Formulation X in accordance with paragraph 143 of IPSAS 47. This is because, based on an assessment of the facts and circumstances relating to both licenses, allocating to Formulation Y some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 133 of IPSAS 47.

IE193. The University transfers Formulation Y at the inception of the binding arrangement and transfers Formulation X one month later. Upon the transfer of Formulation Y, the University does not recognize revenue because the consideration allocated to Formulation Y is in the form of a sales-based royalty. Therefore, in accordance with paragraph AG180 of IPSAS 47, the University recognizes revenue for the sales-based royalty when those subsequent sales occur.

IE194. When Formulation X is transferred, the University recognizes as revenue the CU800,000 allocated to Formulation X.

Case B – Variable Consideration Allocated on the Basis of Stand-Alone Values

IE195. The price stated in the binding arrangement for Formulation X is a fixed amount of CU300,000 and for Formulation Y the consideration is five percent of the Company's future sales of medication developed from Formulation Y. The University's estimate of the sales-based royalties (i.e., the variable consideration) is CU1,500,000 in accordance with paragraph 116 of IPSAS 47.

IE196. To allocate the transaction consideration, the University applies the criteria in paragraph 142 of IPSAS 47 to determine whether to allocate the variable consideration (i.e., the sales-based royalties) entirely to Formulation Y. In applying the criteria, the University concludes that even though the variable payments relate specifically to an outcome from the compliance obligation to transfer Formulation Y (i.e., the Company's subsequent sales of medication developed from Formulation Y), allocating the variable consideration entirely to Formulation Y would be inconsistent with the principle for allocating the transaction consideration. Allocating CU300,000 to Formulation X and CU1,500,000 to Formulation Y does not reflect a reasonable allocation of the transaction consideration on the basis of the stand-alone values of Formulations X and Y of CU800,000 and CU1,000,000, respectively. Consequently, the University applies the general allocation requirements in paragraphs 136–140 of IPSAS 47.

IE197. The University allocates the transaction consideration of CU300,000 to Formulations X and Y on the basis of relative stand-alone values of CU800,000 and CU1,000,000, respectively. The University also allocates the consideration related to the sales-based royalty on a relative stand-alone value basis. However, in accordance with paragraph AG180 of IPSAS 47, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize revenue until the later of the following events: the subsequent sales occur or the compliance obligation is satisfied (or partially satisfied).

IE198. Formulation Y is transferred to the Company at the inception of the binding arrangement and Formulation X is transferred three months later. When Formulation Y is transferred, the University recognizes as revenue the CU167,000 (CU1,000,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation Y. When Formulation X is transferred, the University recognizes as revenue the CU133,000 (CU800,000 ÷ CU1,800,000 × CU300,000) allocated to Formulation X.

IE199. In the first month, the royalty due from the Company's first month of sales is CU200,000. Consequently, in accordance with paragraph AG180 of IPSAS 47, the University recognizes as revenue the CU111,000 (CU1,000,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation Y (which has been transferred to the purchaser and is therefore a satisfied compliance obligation). The University recognizes a binding arrangement liability for the CU89,000 (CU800,000 ÷ CU1,800,000 × CU200,000) allocated to Formulation X. This is because, although the subsequent sale by the Company has occurred, the compliance obligation to which the royalty has been allocated is not satisfied until Formulation X is transferred three months later.

Multi-Party Arrangements and the Determination of Stand-Alone Value

IE200. Example 35 illustrates the application of paragraph AG29 of IPSAS 47 on assessing binding arrangements which include the provision of goods or services to third-party beneficiaries and paragraph AG110 of IPSAS 47 on the determination of the stand-alone value of these goods or services.

Example 35 – Provision of Vaccines to Third-Party Beneficiaries

Case A – Binding Arrangement Includes a Compliance Obligation to Transfer Goods or Services to Another Party

IE201. A health clinic (the Clinic) receives CU100,000 from the government to provide free vaccinations in the local community. The government requires the Clinic to provide 150 doses of vaccine A, which is a vaccine that the Clinic has previously provided for a stand-alone value of CU500 per dose. In addition, the Clinic is also required to provide 350 doses of vaccine B, a new vaccine with limited information regarding observable prices.

IE202. The Clinic concludes that this binding arrangement includes two compliance obligations to transfer two distinct goods to another party, specifically 150 doses of vaccine A and 350 doses of vaccine B. This is because the government, which is acting as the purchaser, is paying the Clinic to provide vaccination services to local individuals, who are third-party beneficiaries. This is consistent with the requirements in paragraph AG29 of IPSAS 47.

IE203. In determining the stand-alone value for each dose of the vaccines, the Clinic estimates that each dose of vaccine A has a stand-alone value of CU500, based on the historical stand-alone value for that vaccine. For vaccine B, the Clinic applies paragraph AG110 of IPSAS 47 and estimates that the stand-alone value of each dose is CU100, based on the expected cost approach for the Clinic to acquire each vaccination, as well as the labor costs for the administration of vaccines.

IE204. Using the stand-alone value of CU500 per dose for vaccine A and CU100 per dose for vaccine B will result in the following allocation of the transaction consideration to the two vaccines:

Total Stand-Alone Value of All Compliance Obligations:

Vaccine A: CU500 stand-alone value × 150 doses = CU75,000

Vaccine B: CU100 stand-alone value (based on replacement cost + labor) × 350 doses = CU35,000

Total Stand-Alone Value: CU75,000 + CU35,000 = CU110,000

Allocation of Transaction Consideration of CU100,000 to the Two Vaccines:

Vaccine A: CU100,000 × CU75,000 ÷ CU110,000 = CU68,182 or CU454.55 per dose

Vaccine B: CU100,000 × CU35,000 ÷ CU110,000 = CU31,818 or CU90.91 per dose

IE205. Based on the above, the Clinic would recognize revenue using the above allocated transaction consideration and measure its progress in satisfying its compliance obligations based on the number of vaccines A or B administered.

Case B – Binding Arrangement Includes a Compliance Obligation to Use Resources for Goods or Services Internally

IE206. Similar to Case A, the Clinic receives CU100,000 from the government. However, in this case, the funding was provided to the Clinic for the purposes of running their vaccination program in the local community. The terms of the binding arrangement specify that the Clinic has discretion to spend the funds on expenditures that are directly related to the vaccination program and may include: an allocation of salaries paid to staff who work on vaccination-related activities such as the administration of the vaccines or the development of educational materials regarding vaccines; an allocation of rent for premises used to conduct these vaccination-related activities; and the acquisition cost of vaccinations themselves.

IE207. The Clinic considers the terms and conditions of the binding arrangement and concludes that while the arrangement includes third-party beneficiaries in accordance with AG29 of IPSAS 47, its compliance obligation is to use resources internally for goods or services to run its vaccination program. This is because the binding arrangement does not specify that the CU100,000 is restricted to fund the provision of vaccines to local individuals (i.e., third-party beneficiaries). Based on its assessment, the Clinic concludes that the compliance obligation is satisfied over time as eligible expenditures are incurred because this measure of

progress best depicts the entity's performance to satisfy this compliance obligation. The Clinic recognizes revenue as eligible expenditures are incurred.

Principal versus Agent Considerations

IE208. Examples 36–38 illustrate the requirements in paragraphs AG117–AG125 of IPSAS 47 on principal versus agent considerations.

Example 36 – Promise to Provide Goods or Services (Entity is a Principal)

IE209. A shared maintenance services agency (the Agency) enters into a binding arrangement with the Department of Social Welfare (the Department) to provide office maintenance services on the Department's properties. The Agency and the Department define and agree on the scope of the maintenance services and negotiate the price. The Agency is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. The Agency invoices the Department for the agreed-upon price on a monthly basis with 10-day payment terms.

IE210. The Agency regularly engages third-party service providers to provide maintenance services to its purchasers. When the Agency obtains a binding arrangement from a purchaser, the Agency enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for the Department. The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in the Agency's binding arrangements with purchasers. However, the Agency is obligated to pay the service provider even if the Department fails to pay.

IE211. To determine whether the Agency is a principal or an agent, the Agency identifies the specified good or service to be provided to the Department and assesses whether it controls that good or service before the good or service is transferred to the Department.

IE212. The Agency observes that the specified services to be provided to the Department are the office maintenance services for which the Department entered into a binding arrangement, and that no other goods or services are promised to the Department. While the Agency obtains a right to office maintenance services from the service provider after entering into the binding arrangement with the Department, that right is not transferred to the Department. That is, the Agency retains the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, that right. For example, the Agency can decide whether to direct the service provider to provide the office maintenance services for the Department, or for another purchaser, or at its own facilities. The Department does not have a right to direct the service provider to perform services that the Agency has not agreed to provide. Therefore, the right to office maintenance services obtained by the Agency from the service provider is not the specified good or service in its binding arrangement with the Department.

IE213. The Agency concludes that it controls the specified services before they are provided to the Department. The Agency obtains control of a right to office maintenance services after entering into the binding arrangement with the Department but before those services are provided to the Department. The terms of the Agency's binding arrangement with the service provider give the Agency the ability to direct the service provider to provide the specified services on the Agency's behalf (see paragraph (b)). In addition, the Agency concludes that the following indicators in paragraph AG123 of IPSAS 47 provide further evidence that the Agency controls the office maintenance services before they are provided to the Department:

(a) The Agency is primarily responsible for satisfying the promise to provide office maintenance services. Although the Agency has hired a service provider to perform the services promised to the Department, it is the Agency itself that is responsible for ensuring that the services are performed and are acceptable to the Department (i.e., the Agency is responsible for satisfying the promise in the binding arrangement,

regardless of whether the Agency performs the services itself or engages a third-party service provider to perform the services).

(b) The Agency has discretion in setting the price for the services to the Department.

IE214. The Agency observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with the Department. Thus, the Agency has mitigated inventory risk with respect to the office maintenance services. Nonetheless, the Agency concludes that it controls the office maintenance services before they are provided to the Department on the basis of the evidence in paragraph IE213.

IE215. Thus, the Agency is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the Department in exchange for the office maintenance services.

Example 37 – Promise to Provide Goods or Services (Entity is a Principal)

IE216. A local government negotiates with hospitals to purchase vaccines for individual citizens in the jurisdiction at reduced rates compared with the price of vaccines provided directly by the hospitals to the individual citizens. The local government agrees to buy a specific number of vaccines and must pay for those vaccines regardless of whether it is able to use them. The reduced rate paid by the local government for each vaccine purchased is negotiated and agreed in advance.

IE217. The local government determines the prices at which the vaccines will be provided to the individual citizens. The local government provides the vaccines and collects the consideration from citizens when the vaccines are purchased.

IE218. The local government also assists the individual citizens in resolving complaints with the service provided by the hospitals. However, each hospital is responsible for satisfying obligations associated with the vaccines, including remedies to a citizen for dissatisfaction with the service.

IE219. To determine whether the local government's compliance obligation is to provide the specified goods or services itself (i.e., the local government is a principal) or to arrange for those goods or services to be provided by another party (i.e., the local government is an agent), the local government identifies the specified good or service to be provided to the individual citizens and assesses whether it controls that good or service before the good or service is transferred to the citizens.

IE220. The local government concludes that, with each vaccine that it commits itself to purchase from the hospitals, it obtains control of a right to the vaccine that the local government then transfers to an individual citizen, who in turn is one of the local government's purchasers (see paragraph (a)). Consequently, the local government determines that the specified good or service to be provided to the individual citizen is that right to a unit of the vaccine that the local government controls. The local government observes that no other goods or services are promised in this arrangement to the individual citizens.

IE221. The local government controls the right to each unit of vaccine before it transfers that specified right to one of its citizens because the local government has the ability to direct the use of that right by deciding whether to use the vaccine to fulfill a binding arrangement with a citizen and, if so, which binding arrangement it will fulfill. The local government also has the ability to obtain the remaining benefits or service potential from that right by either reselling the vaccine and obtaining all of the proceeds from the sale or, alternatively, providing the vaccine to another individual.

IE222. The indicators in paragraphs (b)–(c) of IPSAS 47 also provide relevant evidence that the local government controls each specified right (to the vaccine) before it is transferred to the citizen. The local government has inventory risk with respect to the vaccine because the local government committed itself to obtaining the vaccine from the hospital before entering into a binding arrangement with a citizen to purchase the vaccine. This is because the local government is obligated to pay the hospital for that right regardless of whether it is

able to obtain a purchaser to redirect the vaccine to or whether it can obtain a favorable price for the vaccine. The local government also establishes the price that the individual citizen will pay for the specified vaccine.

IE223. Thus, the local government concludes that it is a principal in the transactions with the individual citizens. The local government recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the vaccines transferred to the citizens.

Example 38 – Arranging for the Provision of Goods or Services (Entity is an Agent)

IE224. The Department of Health (the Department) provides vouchers that entitle qualifying individuals (the patients) to subsidized vaccination services at specified clinics. The sales price of the voucher provides the patient with a significant discount (i.e., a subsidy) when compared with the normal prices of the vaccination services (for example, a patient pays CU10 for a voucher that entitles the patient to a vaccine at a clinic that would otherwise cost CU20). The Department does not purchase or commit itself to purchasing vouchers in advance of the sale of a voucher to a patient; instead, it purchases vouchers only as they are requested by the patients. The Department provides the vouchers through its website and the vouchers are non-refundable.

IE225. The Department and the clinics jointly determine the prices at which the vouchers will be provided to patients. Under the terms of its binding arrangements with the clinics, the Department is entitled to 30 percent of the voucher price when it provides the voucher.

IE226. The Department also assists the patients in resolving complaints about the vaccination services and has a patient satisfaction program. However, the clinics are responsible for satisfying obligations associated with the voucher, including remedies to a patient for dissatisfaction with the vaccination.

IE227. To determine whether the Department is a principal or an agent, the Department identifies the specified good or service to be provided to the patient and assesses whether it controls the specified good or service before that good or service is transferred to the patient.

IE228. A patient obtains a voucher for the clinic that it selects. The Department does not engage the clinics to provide vaccinations to patients on the Department's behalf as described in the indicator in paragraph (a) of IPSAS 47. Therefore, the Department observes that the specified service to be provided to the patient is the right to a vaccination (in the form of a voucher) at a specified clinic or clinics, which the patient purchases and then can use itself or transfer to another person. The Department also observes that no other goods or services (other than the vouchers) are promised to the patients.

IE229. The Department concludes that it does not control the voucher (right to a vaccination) at any time. In reaching this conclusion, the Department principally considers the following:

(a) The vouchers are created only at the time that they are transferred to the patients and, thus, do not exist before that transfer. Therefore, the Department does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining economic benefits or service potential from the vouchers, before they are transferred to patients.

(b) The Department neither purchases, nor commits itself to purchase, vouchers before they are provided to patients. The Department also has no responsibility to accept any returned vouchers. Therefore, the Department does not have inventory risk with respect to the vouchers as described in the indicator in paragraph (b) of IPSAS 47.

IE230. Thus, the Department concludes that it is an agent with respect to the vouchers. The Department recognizes revenue in the net amount of consideration to which the Department will be entitled in exchange for arranging for the clinics to provide vouchers to patients for the clinics' vaccination services, which is the 30 percent fee it is entitled to upon the sale of each voucher.

Non-Refundable Upfront Fees (and some Related Costs) for a Transfer of Goods or Services to Another Party

IE231. Example 39 illustrates the requirements in paragraphs AG135–AG138 of IPSAS 47 on non-refundable upfront fees for a transfer of goods or services to another party (i.e., the purchaser (resource provider) or third-party beneficiary).

Example 39 – Non-refundable Upfront Fee

IE232. A public swimming pool (the Pool) enters into a binding arrangement with an individual to provide one year of access to the pools. The Pool's binding arrangements have standard terms that are the same for all individuals. The binding arrangement requires the individual to pay an upfront administration fee to set up the individual on the Pool's systems. The fee is a nominal amount and is non-refundable. The individual can renew the binding arrangement each year without paying an additional fee.

IE233. The Pool's setup activities do not transfer a good or service to the individual and, therefore, do not give rise to a separate compliance obligation.

IE234. The Pool concludes that the renewal option does not provide a material right to the individual that it would not receive without entering into that binding arrangement (see paragraph AG127 of IPSAS 47). The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the Pool determines the transaction consideration, which includes the non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided in accordance with paragraph AG136 of IPSAS 47.

Other Assets from Revenue Transactions with Binding Arrangement Costs

IE235. Example 40 illustrates the requirements in paragraphs 152–155 of IPSAS 47 on costs to fulfill a binding arrangement and paragraphs 156–161 of IPSAS 47 on amortization and impairment of binding arrangement costs.

Example 40 – Costs that Give Rise to an Asset

IE236. A shared services agency (the Agency) enters into a binding arrangement for a service to manage a local government's information technology data center for five years. The binding arrangement is renewable for subsequent one-year periods. The average term is seven years. Before providing the services, the Agency designs and builds a technology platform for the Agency's internal use that interfaces with the local government's systems. That platform is not transferred to the local government but will be used to deliver services to the local government.

IE237. The initial costs incurred to set up the technology platform are as follows:

	CU
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

IE238. The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the local government. The Agency accounts for the initial setup costs as follows:

(a) Hardware costs—accounted for in accordance with IPSAS 45.

(b) Software costs—accounted for in accordance with IPSAS 31.

(c) Costs of the design, migration and testing of the data center—assessed in accordance with paragraph 152 of IPSAS 47 to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized on a systematic basis over the seven-year period (i.e., the five-year term of the binding arrangement and two anticipated one-year renewal periods) that the Agency expects to provide services related to the data center.

IE239. In addition to the initial costs to set up the technology platform, the Agency also assigns two employees who are primarily responsible for providing the service to the local government. Although the costs for these two employees are incurred as part of providing the service to the local government, the Agency concludes that the costs do not generate or enhance resources of the Agency (see paragraph (b) of IPSAS 47). Therefore, the costs do not meet the criteria in paragraph 152 of IPSAS 47 and cannot be recognized as an asset using IPSAS 47. In accordance with paragraph 155, the Agency recognizes the payroll expense for these two employees when incurred.

Presentation

Display

IE240. Examples 41–43 illustrate the requirements in paragraphs 162–166 of IPSAS 47 on the presentation of binding arrangement balances, and the consequences of applying paragraphs 119–121 on constraining estimates of variable consideration, paragraphs 123–128 on significant financing components, and AG96–AG103 on the sale of a right of return.

Example 41 – Binding Arrangement Liability and Receivable

Case A – Cancellable Binding Arrangement

IE241. On January 1, 20X9, a government procurement agency (the Agency) enters into a binding arrangement that is cancellable to transfer a product to another government entity on March 31, 20X9. The binding arrangement requires the government entity to pay consideration of CU1,000 in advance on January 31, 20X9. The government entity pays the consideration on March 1, 20X9. The Agency transfers the product on March 31, 20X9. The following journal entries illustrate how the Agency accounts for the binding arrangement:

(a) The Agency receives cash of CU1,000 on March 1, 20X9 (cash is received in advance of performance):

Cash	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency satisfies the compliance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

Case B – Non-Cancellable Binding Arrangement

IE242. The same facts as in Case A apply to Case B except that the binding arrangement is non-cancellable and the advance transfer on January 31, 20X9 is required regardless of whether the Agency has started to satisfy its compliance obligation. The following journal entries illustrate how the entity accounts for the binding arrangement:

(a) The amount of consideration is due on January 31, 20X9 (which is when the Agency recognizes a receivable because it has an unconditional and enforceable right to consideration):

Receivable	CU1,000	
Binding Arrangement Liability		CU1,000

(b) The Agency receives the cash on March 1, 20X9:

Cash	CU1,000	
Receivable		CU1,000

(c) The Agency satisfies the compliance obligation on March 31, 20X9:

Binding Arrangement Liability	CU1,000	
Revenue		CU1,000

IE243. If the Agency issued the invoice before January 31, 20X9 (the due date of the consideration), the Agency would not present the Receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because the Agency does not yet have a right to consideration that is unconditional.

Example 42 – Binding Arrangement Asset Recognized for the Entity's Performance

IE244. On January 1, 20X8, a government shared services IT agency (the Agency) enters into a binding arrangement to transfer computer software and configuration services to a small government department (the Department) in exchange for CU1,000,000. The binding arrangement requires the software to be delivered first and states that payment for the delivery of the software is conditional on configuration. In other words, the consideration of CU1,000,000 is due only after the Agency has transferred both the software and configuration services to the Department. Consequently, the Agency does not have a right to consideration that is unconditional (a receivable) until the software is transferred to the Department and configured.

IE245. The Agency identifies the promises to transfer the software and complete the configuration as separate compliance obligations and allocates CU400,000 to the compliance obligation to transfer the software and CU600,000 to the compliance obligation to complete the configuration on the basis of their relative stand-alone values. The Agency recognizes revenue for each respective compliance obligation when control of the product transfers to the Department.

IE246. The Agency satisfies the compliance obligation to transfer the software:

Binding Arrangement Asset	CU400,000	
Revenue		CU400,000

IE247. The Agency satisfies the compliance obligation to configure the software and to recognize the unconditional right to consideration:

Receivable	CU1,000,000	
Binding Arrangement Asset		CU400,000
Revenue		CU600,000

Example 43 – Receivable Recognized for the Entity's Performance

IE248. A government hospital (the Hospital) enters into a binding arrangement with the Department of Correctional Services (Correctional Services) on January 1, 20X9 to perform medical examinations for inmates for CU150 per examination. If Correctional Services requires more than 10,000 examinations to be performed in a calendar year, the binding arrangement indicates that the price per examination is retrospectively reduced to CU125 per product.

IE249. Consideration is due when the examinations are performed. Therefore, the Hospital has an unconditional right to consideration (i.e., a receivable) for CU150 per examination until the retrospective price reduction applies (i.e., after 10,000 examinations are completed).

IE250. In determining the transaction consideration, the Hospital concludes at the inception of the binding arrangement that Correctional Services will meet the 10,000-examination threshold and therefore estimates

that the transaction consideration is CU125 per product. Consequently, upon the completion of the first 100 examinations for Correctional Services, the Hospital recognizes the following:

Receivable	CU15,000[18]	
Revenue		CU12,500[19]
Refund Liability (Binding Arrangement Liability)		CU2,500

IE251. The refund liability (see paragraph 118 of IPSAS 47) represents a refund of CU25 per examination, which is expected to be provided to Correctional Services for the volume-based rebate (i.e., the difference between the CU150 price stated in the binding arrangement that the Hospital has an unconditional right to receive and the CU125 estimated transaction consideration).

Disclosure

IE252. Examples 44–50 illustrate the requirements in paragraphs 167–193 of IPSAS 47 on disclosures. In addition, the following requirements are illustrated in these examples:

(a) Paragraphs 175–176 of IPSAS 47 on services in-kind (Examples 44–45);

(b) Paragraphs 179–180 of IPSAS 47 on the disaggregation of revenue disclosure (Example 47);

(c) Paragraphs 185–187 of IPSAS 47 for the disclosure of transaction consideration allocated to the remaining compliance obligations (Examples 48–49);

(d) Paragraph 120 of IPSAS 47 on constraining estimates of variable consideration (Example 48);

(e) Paragraph AG90 of IPSAS 47 on methods for measuring progress towards complete satisfaction of a compliance obligation (Example 48); and

(f) Paragraph 171 of IPSAS 47 for situations where an entity was compelled by legislation or other governmental policy decisions to enter into a binding arrangement with compliance obligations regardless of the purchaser's ability to pay for the goods or services (Example 50).

Example 44 – Disclosure of Services In-kind not Recognized

IE253. A public hospital's accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.

IE254. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer and that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the services in-kind provided by the volunteers. In accordance with

[18] CU150 per examinations × 100 examinations

[19] CU125 transaction consideration per examinations × 100 examinations

paragraphs 175–176 of IPSAS 47, the hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 45 – Disclosures Made in the Financial Statements of Government A

IE255. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSAS for the first time. It makes the following disclosures in its financial statements:

Statement of Financial Performance		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Transactions without Binding Arrangements		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		
Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers Receivable from Other Governments (note 7)	X	X
Noncurrent Assets		
Land (note 11)	XXX	XXX

Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities Recognized Under Transfer Arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Transactions without Binding Arrangements

1. Assets and revenue arising from taxation transactions are recognized as revenue from transactions without binding arrangements in accordance with the requirements in paragraphs 18–55 of IPSAS 47. However, the Government takes advantage of the transitional provisions in IPSAS 33 in respect of income taxes and estate taxes.

   Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).

2. Assets and revenue arising from transfer transactions are recognized in the period in which the rights in a transfer arrangement are enforceable, except for some services in-kind. The Government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.

3. Where a transfer is subject to an enforceable obligation that, if unsatisfied, requires the return of the transferred resources, the Government recognizes a liability until the requirements are satisfied.

Basis of Measurement of Major Classes of Revenue Transactions

Taxes

4. Income tax revenue is measured at the nominal value of cash and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accrual basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accrual basis for the reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.

5. Assets and revenue accruing from goods and services tax are initially measured at the transaction consideration of assets accruing to the Government during the reporting period, principally cash and cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the Government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system

established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. An estate tax of 40 percent is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the transaction consideration as at the acquisition date of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognized as a consequence of a transfer are measured at the transaction consideration of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their transaction consideration, which is determined by reference to observable market data or by independent appraisal by a member of the valuation profession. Receivables are recognized when the entity has an enforceable right in a transfer arrangement but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of IPSAS 33, to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The Government estimates that it will be able to reliably measure income tax on an accrual basis using the model for the reporting period ending December 31, 20X4.

9. In respect of estate taxes, due to current high levels of non-compliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The Government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to build a public hospital. As at December 31, the Government had received a cash payment; however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to Enforceable Obligations

11. Land with a fair value of CUXX,000 was received as part of a binding arrangement in 20X2. The binding arrangement included a compliance obligation which requires the entity to use the land for public health purposes and cannot be sold for 50 years.

12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government. The painting was received as part of an arrangement that included an enforceable obligation (but did not include an enforceable right). Under the agreement, the entity cannot sell the painting for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either as cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.

14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on the condition that it will be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the Government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.

16. Hospitals, schools, and art galleries controlled by the Government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured, as there are no equivalent paid positions available in the local market and, in the absence of volunteers, the services would not be provided. The Government does not recognize these services in the statements of financial position or financial performance.

Example 46 – Disclosure of a Transfer Subject to Appropriations

IE256. The facts are the same as in Case A of Example 7. The local government does not recognize an asset for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of IPSAS 19.

IE257. The local government concludes that the inflow of economic benefits is probable because the first payment of CU10 million was received in 20X2. Consequentially, the local government makes the following disclosure in its financial statements for the reporting period ended December 31, 20X2:

On March 15, 20X2, the local government entered into a binding arrangement with the national government to receive CU15 million in total (CU10 million in 20X2 and CU5 million in 20X3). The binding arrangement requires the funds to be used to reduce air pollution. The binding arrangement made it clear that the transfer was subject to the completion of the appropriation process, and that approval was not certain and that funding could be reduced. The local government has not recognized an asset in respect of the CU5 million to be received in 20X3 because, as at December 31, 20X2, the appropriation process for this amount had not been completed and therefore the local government does not have an enforceable right to the funds.

Example 47 – Disaggregation of Revenue—Quantitative Disclosure

IE258. A State Government reports the following segments: emergency services, public transit and energy, in accordance with IPSAS 18, *Segment Reporting*. When the State Government prepares its stakeholder presentations, it disaggregates revenue into primary geographical markets, major product lines and timing of revenue recognition (i.e., goods or services transferred at a point in time or services transferred over time).

IE259. The State Government determines that the categories used in the stakeholder presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 179 of IPSAS 47, which is to disaggregate revenue from binding arrangements with purchasers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product or service line

and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the emergency services, public transit and energy segments, in accordance with paragraph 180 of IPSAS 47.

Segments	Emergency Services	Public Transit	Energy	Total
	CU (million)	CU (million)	CU (million)	CU (million)
Primary geographical markets				
Region A	990	2,250	4,000	7,240
Region B	300	1,010	1,000	2,310
Region C	700	–	1,250	1,950
	1,990	3,260	6,250	11,500
Major goods/service lines				
Healthcare services – clinic	600	–	–	600
Healthcare services – hospital	990	–	–	990
Medical supplies	400	–	–	400
Public transit – bus	–	500	–	500
Public transit – rail	–	2,760	–	2,760
Solar panels	–	–	1,000	1,000
Power plant	–	–	5,250	5,250
	1,990	3,260	6,250	11,500
Timing of revenue recognition				
Goods transferred at a point in time	1,000	3,260	–	4,260
Services transferred over time	990	–	6,250	7,240
	1,990	3,260	6,250	11,500

Example 48 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligations

IE260. On June 30, 20X7, a centralized training agency (the Agency) enters into three binding arrangements (Binding Arrangements A, B and C) with a government department (the Department) to provide training services. Each binding arrangement has a two-year non-cancellable term. The Agency considers the requirements in paragraphs 185–187 of IPSAS 47 in determining the information in each binding arrangement to be included in the disclosure of the transaction consideration allocated to the remaining compliance obligations at December 31, 20X7.

Binding Arrangement A

IE261. Training services are to be provided over the next two years, typically at least once per month. For services provided, the Department pays an hourly rate of CU25.

IE262. Because the Agency bills a fixed amount for each hour of service provided, the Agency has a right to invoice the resource provider in the amount that corresponds directly with the value of the Agency's performance completed to date in accordance with paragraph AG90 of IPSAS 47. Consequently, no disclosure is necessary if the Agency elects to apply the practical expedient in paragraph (b) of IPSAS 47.

Binding Arrangement B

IE263. Training and onboarding services are to be provided as and when needed with a maximum of four visits per month over the next two years. The Department pays a fixed price of CU400 per month for both services. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE264. The Agency discloses the amount of the transaction consideration that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The information for Binding Arrangement B included in the overall disclosure is as follows:

	20X8	**20X9**	**Total**
	CU	**CU**	**CU**
Revenue expected to be recognized on this binding arrangement as of December 31, 20X7	4,800[20]	2,400[21]	7,200

Binding Arrangement C

IE265. Training services are to be provided as and when needed over the next two years. The Department pays a fixed consideration of CU100 per month plus a one-time variable consideration payment ranging from CU0–CU1,000 corresponding to a one-time regulatory review and certification of the Department's employees (i.e., a performance bonus). The Agency estimates that it will be entitled to CU750 of the variable consideration. On the basis of the Agency's assessment of the factors in paragraph 120 of IPSAS 47, the Agency includes its estimate of CU750 of variable consideration in the transaction consideration because it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Agency measures its progress towards complete satisfaction of the compliance obligation using a time-based measure.

IE266. The Agency discloses the amount of the transaction consideration that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the Agency expects to recognize the amount as revenue. The Agency also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Binding Arrangement C included in the overall disclosure is as follows:

[20] CU4,800 = CU400 × 12 months.

[21] CU2,400 = CU400 × 6 months

	20X8	20X9	Total
	CU	CU	CU
Revenue expected to be recognized on this binding arrangement as of December 31, 20X7	1,575[22]	788[23]	2,363

IE267. In addition, in accordance with paragraph 187 of IPSAS 47, the Agency discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction consideration. That part of the performance bonus was excluded from the transaction consideration in accordance with the requirements for constraining estimates of variable consideration in paragraphs 119–121.

Example 49 – Disclosure of the Transaction Consideration Allocated to the Remaining Compliance Obligation—Qualitative Disclosure

IE268. On January 1, 20X2, the Department of Public Works (Public Works) enters into a binding arrangement with another department to refurbish a building for a fixed consideration of CU10 million. The refurbishment of the building is considered a single compliance obligation that Public Works satisfies over time. As of December 31, 20X2, Public Works has recognized CU3.2 million of revenue. Public Works estimates that the refurbishment will be completed in 20X3, but it is possible that the project will be completed in the first half of 20X4.

IE269. At December 31, 20X2, Public Works discloses the amount of the transaction consideration that has not yet been recognized as revenue in its disclosure of the transaction consideration allocated to the remaining unsatisfied portion of the compliance obligation. Public Works also discloses an explanation of when it expects to recognize that amount as revenue. The explanation can be disclosed either on a quantitative basis using time bands that are most appropriate for the duration of the remaining compliance obligation or by providing a qualitative explanation. Because Public Works is uncertain about the timing of revenue recognition, Public Works discloses this information qualitatively as follows, in accordance with paragraph 185 of IPSAS 47:

As of December 31, 20X2, the aggregate amount of the transaction consideration allocated to the remaining compliance obligation is CU6.8 million and the entity will recognize this revenue as the building is completed, which is expected to occur over the next 12–18 months.

Example 50 – Disclosures of Transactions that an Entity was Compelled to Enter by Legislation or Other Governmental Policy Decisions

IE270. A government-owned utility operates a number of power plants and provides electricity to residential households. The energy sector in the jurisdiction is highly regulated, and under its Power and Energy Act, all utility companies which provide electricity to residential households are required to provide electricity regardless of the households' ability to pay. Typically, a household would apply to the utility to connect electricity to their location. As part of the connection process, the household would enter into a power purchase agreement with the utility to document the payment terms and any economic consequences of non-payment, such as interest or penalties.

[22] Transaction consideration = CU3,150 (CU100 × 24 months + CU750 variable consideration) recognized evenly over 24 months at CU1,575 per year.

[23] CU1,575 ÷ 2 = CU788 (i.e., for 6 months of the year).

IE271. The power purchase agreement is considered a binding arrangement with compliance obligations, as the utility has agreed to provide a distinct good (electricity) to a purchaser (the household) in exchange for the consideration. Given the regulations, the utility may not deny the initial connection nor suspend the provision of electricity even if a household is in default – i.e., the utility is compelled to satisfy the compliance obligation to provide electricity regardless of a household's ability to pay.

IE272. During the year, the utility provided electricity that would have resulted in total revenue of CU100 million if revenue had been recognized at the utility's standard rates for 100 percent of the electricity provided. However, throughout the year, a number of households were unable to pay their amounts owed to the utility in full.

IE273. The utility applies paragraph AG37 of IPSAS 47, and based on historical data, estimates that only CU90 million of the amount is collectible. For the remaining CU10 million, the utility accepts that it has implicitly provided a price concession of CU10 million due to the regulations compelling the utility to continue to provide electricity. As a result, the utility recognizes revenue based on a transaction consideration of CU90 million. (See Example 11 for more guidance on implicit price concessions.)

IE274. To comply with the disclosure requirements in paragraph 171 of IPSAS 47, the utility discloses the following information in the notes to its annual financial statements:

The utility is subject to the provisions of the Power and Energy Act, which requires all utilities to provide electricity to residential households regardless of the purchasers' ability to pay. As a result, the utility is compelled to connect all residential purchasers to its power grid and to continue to provide electricity even in the event of non-payment.

During the year, the utility provided and billed CU100 million of electricity to the households, but only recognized revenue of CU90 million, as this was the amount expected to be collected based on historical data. Therefore, CU10 million of the amount billed was not recognized as revenue.

Application of Principles to Specific Transactions

Capital Transfers

IE275. Example 51 illustrates the application of paragraphs AG140–AG142 of IPSAS 47 on capital transfers. Example 52 illustrates the initial measurement of a transfer of a physical asset.

Example 51 – Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

IE276. Entity R enters into a binding arrangement with Entity P. The terms of the binding arrangement are as follows:

(a) Entity R is to receive a capital transfer of CU22 million in cash from Entity P, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) This amount is based on budgeted construction and related costs. The funding is to be fully paid to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

(i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.) along with the budgeted costs of these activities;

(ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress, but any funds that have not been spent on construction are to be returned to Entity P.

IE277. Entity R has determined that the binding arrangement has only one compliance obligation and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete satisfaction of the compliance obligation.

IE278. In this example, the substance of the binding arrangement is to receive funding for the construction of the building, and there was no transfer relating to the subsequent use of the building by Entity R. Therefore, upon receipt of the CU22 million, Entity R recognizes cash and liability for the full amount of CU22 million because it has not yet started satisfying its compliance obligation (i.e., construction of the building) and is required to return any funds not spent on construction.

IE279. As Entity R completes the construction activities in its construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity R applies this percentage to the CU22 million to determine the amount of deferred revenue that should be derecognized from liabilities and recognized as earned revenue throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE280. Building on Case A, the binding arrangement now states that:

(a) The funding amount has been increased to CU32 million. The amount is based on budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE281. In this scenario, Entity R considers the substance of the transaction in accordance with the terms of the binding arrangement and concludes that the binding arrangement consists of two compliance obligations: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from IPSAS 47, Entity R has allocated CU22 million to the construction of the building and CU10 million to its operation as a public library.

IE282. For the compliance obligation relating to the construction of the building, as in Case A, Entity R recognizes a liability of CU22 million upon receipt of the funds. Entity R then derecognizes the CU22 million liability (and recognizes the amounts as earned revenue) over the construction period based on its construction progress as determined by the direct construction costs incurred.

IE283. For the compliance obligation relating to the operation of the building as a library, Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library during the 10-year

period, and therefore would recognize a CU10 million liability upon initial receipt of the funds. After construction has been completed, Entity R derecognizes CU1 million liability per year as it operates the building as a public library and recognizes the amount as earned revenue.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE284. In this scenario, the binding arrangement includes all of the terms from Case B, with the addition of the following:

(a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty of CU5 million to Entity P.

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the construction or operation of the asset. For clarity, if Entity R has completed construction of the building and operated it as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of unearned revenue related to the operating subsidy and the CU5 million penalty) to Entity P.

IE285. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, the CU32 million will be recognized as a liability upon receipt. Subsequently, the CU22 million liability will be derecognized and recognized as earned revenue as the building is constructed, and the CU10 million liability will be derecognized and recognized as earned revenue over the 10-year operating period.

IE286. The additional CU5 million penalty is not recognized by Entity R because it is a contingent liability (as defined in IPSAS 19) that is not a present obligation (as described in Chapter 5*, Elements in Financial Statements* of the *Conceptual Framework*). This penalty only becomes a present obligation once the past event (breaching the terms of the agreement by not operating the building as a library) has occurred. Entity R will need to consider if disclosure of the contingent liability is required by IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

IE287. The following scenario is independent from Cases A-C, and illustrates the accounting for revenue from an operating transfer to highlight the differences with accounting for revenue from capital transfers.

IE288. In this scenario:

(a) Entity R already owns the building;

(b) The binding arrangement includes the terms relating to a CU10 million transfer to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE289. In this scenario, the CU10 million transfer only relates to the compliance obligation to operate the existing building as a public library over a 10-year period. Upon initial receipt, Entity R recognizes the CU10 million as a liability.

IE290. Entity R has determined that this compliance obligation is satisfied as the building is being operated as a library throughout the 10-year period. Therefore, Entity R derecognizes the liability and recognizes earned revenue of CU1 million per year as it operates the building as a public library.

Example 52 – Transfers of Physical Assets

IE291. A public health network (Public Health) enters into a binding arrangement on January 1, 20X2 with the regional government (Government) and agrees to the following:

(a) The Government will transfer ownership of an X-ray machine to Public Health upon finalization of the binding arrangement;

(b) Public Health will use the machine to provide X-ray imaging services to the citizens in the region for 10 years. After this 10-year period, Public Health retains ownership of the machine;

(c) If Public Health stops using the machine to provide imaging services during the 10-year period, it is required to return the machine to the Government; and

(d) At the time of transfer, the remaining useful life of the machine is 15 years.

IE292. In this scenario, the transaction constitutes a transfer as defined in paragraph 4 of IPSAS 47, but is not a capital transfer as Public Health is not required to use the physical asset received to acquire or construct a non-financial asset.

IE293. Upon transfer of the X-ray machine, Public Health applies paragraph 129 of the IPSAS 47 and recognizes and measures the asset at its deemed cost at the acquisition date in accordance with IPSAS 45. The entity also recognizes an equivalent liability, which is derecognized (and earned revenue is recognized) over the 10 years as the compliance obligation is satisfied over time. Public Health would also amortize the X-ray machine over its remaining useful life of 15 years in accordance with IPSAS 45.

Pledges

Example 53 – Television Appeal for Public Hospital

IE294. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (the Hospital). The annual reporting date of the Hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

IE295. The Hospital does not recognize any amount in its general purpose financial statements in respect of the pledges. The Hospital does not control the resources related to the pledge, because it does not have the ability to exclude or regulate the access of others to the economic benefits or service potential of the pledged resources; therefore it cannot recognize the asset or the related revenue until the donation is binding on the donor in accordance with paragraph AG150 of IPSAS 47.

Concessionary Loans

Example 54 – Concessionary Loans

IE296. An Entity receives CU6 million funding from a multi-lateral development agency (Agency) to build 10 schools over the next 5 years. The funding is provided on the following conditions:

(a) CU1 million of the funding need not be repaid, provided that the schools are built;

(b) CU5 million of the funding is to be repaid as follows:

Year	Capital to be repaid

1	0%
2	10%
3	20%
4	30%
5	40%

(c) Interest is charged at five percent per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10 percent;

(d) To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned); and

(e) The Entity built the following schools over the period of the loan;

Year	Status
1	1 school completed
2	3 schools completed
3	5 schools completed
4	10 schools completed

IE297. The Entity determined that the substance of the CU1 million is revenue, and not a contribution from owners. In substance, the Entity has received a concessionary loan which includes a transfer of CU1 million and a loan of CU5 million, and an additional transfer of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10 percent).

IE298. Considering paragraphs AG152–AG153 of IPSAS 47, the Entity accounts for the transfer of CU1 million + CU784,550 in accordance with this Standard, and the loan with its related contractual interest and capital payments in accordance with IPSAS 41.

IE299. The journal entries are illustrated below:

1. On initial recognition, the resource recipient will recognize the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the resource recipient will recognize the following:				
Dr		Liability	CU178,455	
	Cr	Revenue		CU178,455
(1/10 of the schools built x CU1,784,550) (Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example, as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to IPSAS 41).				

3. Year 2: the resource recipient will recognize the following (assuming that the resource recipient subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(3/10 schools built x CU1,784,550 – CU178,455 already recognized)				

4. Year 3: the resource recipient will recognize the following:				
Dr		Liability	CU356,910	
	Cr	Revenue		CU356,910
(5/10 schools built x CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the resource recipient will recognize the following:				
Dr		Liability	CU892,275	
	Cr	Revenue		CU892,275
(All schools built, CU1,784,550 – CU892,275) If the concessionary loan was granted with no conditions, the resource recipient would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Revenue		CU1,784,550

Concessionary Leases

Example 54A – Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates

IE296A. Public sector entity X (Lessee) enters into a lease with Municipality Y (Lessor) to use a building to provide medical services to the population over a period of five years. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

The lease stipulates that it should be paid for over the five-year period as follows:

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The lessee's incremental borrowing rate is 5 percent per annum, which is readily determinable by the lessee.

The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for five years. The compliance obligation is met on a straight-line basis.

Analysis

It is a concessionary lease, as the present value of the payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The lessee has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The revenue of CU6,900,000 is accounted for in accordance with IPSAS 47, and the lease, with its related contractual interest and lease payments, in accordance with IPSAS 43.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the lessee will recognize the following:

Dr	Right-of-use asset	CU23,000,000		
Cr	Lease liability			CU16,100,000
Cr	Binding arrangement liability			CU6,900,000

2. Year 1: the lessee will recognize the following:

Dr	Binding arrangement liability	CU1,380,000		
Cr	Revenue			CU1,380,000

(1/5 of the compliance obligation met by the lessee CU6,900.000)

(Note: The journal entries for the repayment of interest and capital and interest accruals have not been reflected in this example, as it is intended to illustrate the recognition of revenue arising from concessionary leases. A comprehensive example is included in the Illustrative Examples to IPSAS 43.)

3. Year 2: the lessee will recognize the following (the lessee subsequently measures the concessionary lease at amortized cost):

Dr	Binding arrangement liability	CU1,380,000		
Cr	Revenue			CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

4. Year 3: the lessee will recognize the following:

Dr	Binding arrangement liability	CU1,380,000		
Cr	Revenue			CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

5. Year 4: the lessee will recognize the following:

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

6. Year 5: the lessee will recognize the following:

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation met X CU6,900,000)

If the concessionary lease was granted with a compliance obligation that is met in the first year, the lessee would recognize the following on initial recognition:

Dr		Right-of-use asset	CU23,000,000	
	Cr	Lease liability		CU16,100,000
	Cr	Revenue		CU6,900,000

Debt Forgiveness

Example 55 – Debt Forgiveness

IE300. The national government (Government N) entered into a binding arrangement to lend a local government (Government L) CU20 million to enable Government L to build a water treatment plant. After a change in policy, Government N decides to forgive the loan and advises the local government in writing. It also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IE301. Upon receipt of this letter and documentation from Government N, Government L derecognizes the liability for the loan and recognizes revenue in the statement of financial performance in the reporting period in which the liability is derecognized in accordance with paragraphs AG155–AG158 of IPSAS 47.

Bequests

Example 56 – Proposed Bequest

IE302. A 25-year-old recent graduate (the Graduate) of a public university names the public university (the University) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.

IE303. The University does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made, in accordance with paragraphs AG161–AG163 of IPSAS 47. The past event for a bequest is the death of the testator (i.e., the Graduate), which has not occurred.

Gifts and Donations, including Goods In-kind

Example 57 – Goods In-kind

IE304. A Defense Force Agency of Government A (Defense Agency) agrees to provide an Aid Agency of Government B (Aid Agency) with its obsolete canvas tents for use as emergency relief housing after a natural

disaster. Defense Agency purchased the tents for CU100 per unit two years prior to transferring them to Aid Agency. The agreement states that the tents are valued at CU100 per unit.

IE305. Aid Agency concludes that it has received a donation in the form of goods in-kind and applies paragraphs AG164–AG167 of IPSAS 47. Upon receipt, Aid Agency determines that IPSAS 45 is the relevant IPSAS, and the tents are held for operational capacity. Aid Agency determines that the current operational value for this obsolete version of the tent is CU50. Therefore, Aid Agency recognizes revenue at the value of CU50 per unit received instead of the CU100 as stated in the agreement.

Example 58 – External Assistance

IE306. National Government A (Government A) enters into an external assistance agreement with National Government B (Government B), which provides Government A with development assistance to support Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties through an international court of law. The agreement specifies the details of the development assistance receivable by Government A and the types of items or expenditures the funds can be spent on to further its health objectives. Government A measures the transaction consideration of the development assistance at CU5 million. Any funding not used over the two-year period is to be returned to Government B.

IE307. At inception of the binding arrangement, Government A has a combined right and obligation which constitute a single asset or liability, which is measured at zero because the binding arrangement is wholly unsatisfied. Government A will recognize an asset on its statement of financial position in accordance with paragraphs 18–25 (for example, when Government A receives an inflow of resources from Government B, or if Government A begins satisfying its compliance obligation by incurring eligible expenditures in accordance with the terms of the external assistance agreement). Government A would also recognize a liability, which is derecognized (and earned revenue is recognized) as the compliance obligation is satisfied.

Right-of-Use Assets In-kind

Example 59 – Right-of-Use Assets In-kind

IE308. Public sector entity Z (Entity Z) enters into an arrangement with a Government Agency (Agency) for five years to have the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types or pricing of sports services that Entity Z provides.

A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for five years and is considered market rates. This information is publicly available on the Agency's website.

Entity Z's incremental borrowing rate is 5 percent per annum.

Case A – A Binding Arrangement with Compliance Obligation Met Over Five Years

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free, and that it has an enforceable obligation (because the Agency can terminate the arrangement if that field is not being used by youth at any time in the five years). Entity Z determines that the arrangement meets the definition of a binding arrangement, and it includes a compliance obligation to ensure that only youth use the sports field. The compliance obligation is satisfied over time, on a straight-line basis.

Entity Z confirmed that the substance of the right-of-use is not a contribution from owners.

Analysis

Entity Z acquired a right-of-use asset in-kind for zero consideration. The present value of payments at market rates is CU1,298,843 (refer to Table 1), which corresponds to the value of the right-of-use asset in-kind and total revenue. IPSAS 45 is applied to subsequently account for the right-of-use asset in-kind.

The journal entries to account for the right-of-use asset in-kind and revenue are as follows:

1. On initial recognition, the Entity Z will recognize the following:

	Right-of-use asset	CU1,298,843	
Cr	Binding arrangement liability		CU1,298,843

2. Year 1: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met by Entity Z CU1,298,843)

3. Year 2: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

4. Year 3: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

5. Year 4: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

6. Year 5: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

Case B – A Binding Arrangement with a Compliance Obligation Met in the First Year

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free an enforceable obligation that is met in the first year.

Dr	Right-of-use asset	CU1,298,843	
Cr	Revenue		CU1,298,843

Table 1: Annual Payments (Using Incremental Borrowing Rate of Entity Z at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	Present Value of Payments at Market Rates (Value of Right-of-use asset and total revenue)
	(1)	(2)
Year 1	300,000	285,714
Year 2	300,000	272,109
Year 3	300,000	259,151
Year 4	300,000	246,811
Year 5	300,000	235,058
Total	**1,500,000**	**1,298,843**

COMPARISON WITH IFRS 15

The binding arrangement accounting requirements in IPSAS 47, *Revenue* are drawn primarily from IFRS 15, *Revenue from Contracts with Customers* (issued in 2014, including amendments up to March 2018). The main differences between IPSAS 47 and IFRS 15 are as follows:

- IPSAS 47 applies to all revenue transactions in the public sector, which may arise from transactions with or without binding arrangements. IFRS 15 applies to a subset of binding arrangements, specifically contracts to deliver goods or services to customers.
- IPSAS 47 explicitly requires an entity to determine whether the revenue arises from a transaction with or without a binding arrangement. IFRS 15 does not explicitly require an entity to determine whether the revenue arises from a contract.
- IPSAS 47 uses the term “compliance obligation” as the unit of account for revenue recognition in a binding arrangement, which is a promise to either use resources internally for distinct goods or services, or to transfer distinct goods or services to another party (i.e., a purchaser or third-party beneficiary). IFRS 15 uses the term “performance obligation” as the unit of account for revenue recognition in a contract, which is a promise to transfer distinct goods or services to a customer.
- The concept of compliance obligations in IPSAS 47 is broader than performance obligations in IFRS 15. As a result, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* is not applicable for public sector organizations because IPSAS 47 includes principles to account for capital transfers and other transfers arising from binding arrangements.
- IPSAS 47 requires an entity to disclose any transactions where it is compelled to satisfy an obligation, regardless of the counterparty’s ability or intention to pay and the probability of collection of consideration. IFRS 15 does not require this disclosure.
- IPSAS 47 uses different terminology from IFRS 15. For example, IPSAS 47 uses the terms "compliance obligation", “resource provider”, “stand-alone value”, and “economic substance”, while IFRS 15 uses the terms “performance obligation”, “customer”, “stand-alone selling price”, and “commercial substance”, respectively.

COMPARISON WITH GFS

In developing IPSAS 47, *Revenue*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 47 and GFS will depend on the facts and circumstances of the revenue transactions.
- Both IPSAS 47 and GFS require an entity to account for revenue on an accrual basis. However, IPSAS 47 uses accounting terminology whereas GFS uses economic terminology, which may lead to the same accounting outcome.
- IPSAS 47 distinguishes between revenue arising from transactions with or without a binding arrangement. GFS distinguishes revenue transactions by their characteristics, including whether it is a market transaction.
- IPSAS 47 considers the enforceability of the entity's individual rights and/or obligations in order to identify whether the revenue arises from a transaction with a binding arrangement. GFS considers different characteristics to identify the type of revenue, including whether it is a market transaction.
- Under IPSAS 47, an entity recognizes revenue when (or as) it satisfies any enforceable obligations associated with an inflow (or right to an inflow) of resources, as specified in the arrangement. Under GFS, the timing of revenue recognition is based on the type of revenue.
- IPSAS 47 includes disclosure requirements that are not present in GFS.

IPSAS 48, *TRANSFER EXPENSES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 48, *Transfer Expenses* was issued in May 2023.

Since then, IPSAS 48 has been amended by the following IPSAS Accounting Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (issued October 2024)

Table of Amended Paragraphs in IPSAS 48

Paragraph Affected	How Affected	Affected By
63	Amended	IPSAS 33 November 2025
IE2	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
Heading above paragraph IE12A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE12A	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE12B	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024
IE12C	Added	*Concessionary Leases and Other Arrangements Conveying Rights over Assets* October 2024

IPSAS 48, *TRANSFER EXPENSES*

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International Public Sector Accounting Standard 48, *Transfer Expenses*, is set out in paragraphs 1–64. All the paragraphs have equal authority. IPSAS 48 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. **The objective of this Standard is to establish the principles that a transfer provider (an entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.**

2. To meet the objective in paragraph 1, this Standard:

   (a) Requires an entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and

   (b) Sets out the accounting requirements for the transfer expense transaction.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers.**

4. **This Standard does not apply to:**

   (a) **Leases as defined in IPSAS 43, *Leases*;**

   (b) **Contributions from, and distributions to, owners;**

   (c) **Service concession arrangements as defined in IPSAS 32, *Service Concession Arrangements: Grantor*;**

   (d) **Employee benefits as defined in IPSAS 39, *Employee Benefits*;**

   (e) **Financial instruments, including concessionary loans, as defined in IPSAS 41, *Financial Instruments*;**

   (f) **Social benefits as defined in IPSAS 42, *Social Benefits*;**

   (g) **Insurance contracts (see the international or national accounting standard dealing with insurance contracts);**

   (h) **Share-based payments (see the international or national accounting standard dealing with share-based payments); and**

   (i) **Income taxes (see the international or national accounting standard dealing with income taxes).**

5. A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:

   (a) If the other Standards specify how to separately recognize and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18-43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

   (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this Standard to the entirety of the binding arrangement.

   Paragraphs AG2-AG3 provide additional guidance on the scope of this Standard.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

From the perspective of a transfer provider, a capital transfer is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG53 provides additional guidance).

The stand-alone consideration is the amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.

For the purposes of this Standard, the transfer consideration represents the total amount of resources[1] which an entity expects to transfer.

A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return (paragraphs 8-9 provide additional guidance).

A transfer obligation is an entity's obligation in a binding arrangement to transfer resources in a specified manner.

A transfer obligation liability is the liability recognized for the existence of one or more transfer obligations arising from a binding arrangement.

A transfer provider is an entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.

A transfer recipient is an entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity.

A transfer right is an entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.

A transfer right asset is the asset recognized for the existence of one or more transfer rights arising from a binding arrangement.

7. The following terms are defined in IPSAS 47, *Revenue*:

(a) Binding arrangement;

(b) Compliance obligation;

(c) Taxes; and

(d) Third-party beneficiary.

A constructive obligation is defined in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

Expenses are defined in IPSAS 1, Presentation of Financial Statements.

Paragraphs AG4-AG9 provide additional guidance on the definitions in this Standard.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

[1] In this Standard, the term resources includes goods, services, and other assets, and may encompass cash or non-current assets.

Identifying the Transfer Expense Transaction

8. **An entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is derecognized when (or as) the entity's rights from the transfer arrangement are extinguished.[2] For transfers which do not result in the recognition of an asset, a transfer expense is recognized:**

   (a) **When the entity loses control of the transferred resources; or**

   (b) **When the entity has incurred an obligation to transfer resources and recognizes a liability for the obligation.**

   The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.

9. An entity will apply the guidance on recognition and measurement in this Standard as follows:

   (a) Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 18-20; and

   (b) Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 21-43.

   Paragraph AG10 provides additional guidance on identifying the transfer expense transaction.

Binding Arrangements and Enforceability

10. **For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.**

11. In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.

12. A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable.

13. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by an entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across legal jurisdictions, sectors, and entities. In addition, they may vary within an entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.

14. A binding arrangement has at least one obligation because its enforceability holds the entity accountable for satisfying the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the entity to avoid the transfer of resources.

[2] The asset may be derecognized at a point in time or over a period of time depending on the terms of the arrangement.

15. When the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

16. A binding arrangement is wholly unsatisfied if both of the following criteria are met:

    (a) The entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and

    (b) The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.

    Paragraphs AG11-AG29 provide additional guidance on enforceability and binding arrangements.

Combination of Binding Arrangements

17. An entity shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

    (a) The binding arrangements are negotiated as a package with a single objective;

    (b) The amount of resources to be transferred in one binding arrangement depends on the consideration or performance of the other binding arrangement; or

    (c) The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right in accordance with paragraph 21.

Transfer Expenses from Transactions without Binding Arrangements

Recognition

18. **For transfer expenses without binding arrangements, an entity shall recognize expenses as follows:**

    (a) **At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with paragraph 22 of IPSAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognized provision; or**

    (b) **If a constructive or legal obligation to transfer resources does not exist, when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards.**

    Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

Measurement

19. **When a provision is recognized in the situation described by paragraph 18(a), the provision is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.**

20. **When an entity recognizes an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources.**

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

21. **At the inception of a binding arrangement to transfer resources, an entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:**

    (a) **A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or**

    (b) **A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristics and risks and that have the same pattern of satisfaction.**

    Paragraphs AG31-AG34 provide additional guidance on identifying transfer rights.

Recognition of Transfer Expenses

22. When (or as) an entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognized, and a transfer right asset is recognized for the transfer rights arising from the binding arrangement.

    Paragraph AG30 provides additional guidance on the derecognition of the transferred resources.

23. Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the entity transferring resources, the arrangement gives rise to a transfer obligation for the entity. The existence of a transfer obligation results in the recognition of a transfer obligation liability. A transfer obligation liability is also recognized when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 35-37).

24. **For transfer expenses with binding arrangements, an entity shall recognize expenses:**

    (a) **When (or as) a transfer right asset is derecognized; or**

    (b) **When a transfer obligation liability is recognized.**

25. The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 21, the transfer right is extinguished when (or as) the entity no longer has enforceable rights in accordance with the binding arrangement.

    Paragraphs AG35-AG49 provide additional guidance on the recognition of transfer expenses.

Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient

26. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. Where the entity has an enforceable and unconditional right to the receipt of cash or other financial assets arising from the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances, the entity shall derecognize the transfer right asset and recognize a financial asset. Subsequent to its recognition, the entity shall measure the financial asset in accordance with IPSAS 41. (See paragraph 43 for situations where a transfer right asset still exists but is impaired.)

Modifications to a Binding Arrangement

27. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations, or changes the existing enforceable rights and obligations of the parties to the binding

arrangement. A modification to a binding arrangement could be approved in writing, by oral agreement, or implied by an entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, an entity shall continue to apply this Standard to the original binding arrangement until the modification to the binding arrangement is approved.

28. An entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions exist:

    (a) The scope of the binding arrangement increases, providing the entity with one or more additional transfer rights (see paragraphs AG31-AG34), because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and

    (b) The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.

29. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with paragraph 28, an entity shall account for the modification to the binding arrangement as if it were a part of the original binding arrangement. The entity shall determine the accumulated transfer expense to be recognized as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined as at the date of the modification and the accumulated transfer expense previously recognized shall be recognized in surplus or deficit as at the date of the modification.

Measurement

30. **An entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which an entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see paragraphs 35-37).**

31. **When an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.**

32. **When a transfer expense is recognized from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with paragraph 38.**

33. **When the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the total carrying amount of the resources which the entity is obligated to transfer in accordance with the binding arrangement.**

34. To determine the transfer consideration, an entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

Variable Consideration

35. The resources required to be transferred by a binding arrangement can vary for items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The resources can also vary if the entity's obligation to transfer the resources is contingent on the

occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the transfer recipient if it satisfies its obligations in the binding arrangement within a specified period.

36. For a transfer expense transaction, variable consideration in a binding arrangement may result in a liability of uncertain timing or amount, which meets the definition of a provision in IPSAS 19.

37. If the entity has determined that it is more likely than not that a present obligation exists for the transfer of variable consideration, the entity shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs 44-72 of IPSAS 19.

Allocating the Transfer Consideration to Transfer Rights

38. **When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.**

39. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. An entity shall allocate variable consideration as follows:

    (a) When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 38; or

    (b) When the variable consideration cannot be identified with one or more transfer rights, the entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).[3]

    Paragraphs AG50-AG51 provide additional guidance on allocating the transfer consideration to transfer rights.

Changes in the Transfer Consideration

40. After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which an entity is obligated to pay in the binding arrangement.

41. For a change in transfer consideration that did not arise from a modification to the binding arrangement, an entity shall allocate to the transfer right assets and transfer obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognized as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.

42. An entity shall account for a change in the transfer consideration that arises from a modification to the binding arrangement in accordance with paragraphs 27-29.

Impairment of a Transfer Right Asset

43. After the recognition of a transfer right asset by the entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. When this occurs, and the terms of the binding arrangement, the legal system in the jurisdiction, and/or other circumstances do not support the recognition of a financial asset as noted in paragraph 26, the entity shall assess the transfer right asset for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

[3] This guidance is also applicable to a specific portion of variable consideration that can or cannot be identified with one or more transfer rights.

Presentation

Display

44. **For transfer expenses from transactions without binding arrangement, if an entity recognizes a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in paragraphs 88, 94, and 107 of IPSAS 1.**

45. **For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, an entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 22-23.**

46. An entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in paragraphs 76, 90, 91, and 94 of IPSAS 1.

47. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity presents the financial asset in accordance with the requirements in IPSAS 28, *Financial Instruments: Presentation*.

48. An entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in paragraphs 80 and 88 of IPSAS 1.

49. As required by paragraph 109 of IPSAS 1, an entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity. Paragraph 111 of IPSAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting entity. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made.

    Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

Disclosure

50. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions. To achieve that objective, the entity shall disclose qualitative and quantitative information about all of the following:**

    (a) **Transfer expenses and related balances (see paragraphs 53-58);**

    (b) **Transfer arrangements (see paragraphs 59-60); and**

    (c) **The significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions (see paragraph 61).**

51. In making the disclosures required by this Standard, an entity shall consider the requirements of paragraphs 45-47 of IPSAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

52. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

Transfer Expenses and Related Balances

53. As noted in paragraph 49, an entity shall incorporate transfer expenses in the analysis of expenses required by IPSAS 1. This analysis can be presented on the face of the statement of financial performance or disclosed in the notes.

    Paragraph AG52 provides additional guidance on the presentation and disclosure of transfer expenses.

54. In addition to the analysis of expenses, an entity shall provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to enable users to understand how the entity's resources are spent on its programs, activities, and services.

55. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 26), the entity applies the disclosure requirements for financial assets from IPSAS 30, *Financial Instruments: Disclosures*.

56. A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortized cost. Therefore, the disclosure requirements from IPSAS 30 for payables are applicable to such liabilities.

57. If a liability has been recognized for variable consideration (see paragraphs 35-37), an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

58. For transfers from transactions without binding arrangements, when a liability is recognized for a legal or constructive obligation to transfer resources, an entity shall apply the disclosure requirements applicable to provisions in IPSAS 19.

Transfer Arrangements

59. An entity shall disclose information about its transfer binding arrangements, including a description of the following:

    (a) The purpose of the transfer binding arrangements;

    (b) Significant payment terms;

    (c) The nature of the resources that have been or will be transferred; and

    (d) Significant risks and uncertainties relating to the realization of transfer rights assets.

    The above information can be aggregated for binding arrangements that are of a similar nature.

60. An entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements, an entity shall disclose the following:

    (a) The purpose of the transfer arrangements;

    (b) Significant payment terms, if any; and

    (c) The nature of the resources that have been or will be transferred.

    The above information can be aggregated for arrangements that are of a similar nature.

Significant Judgments, and Changes in Judgments, Made Regarding the Recognition of Transfer Right Assets from Transfer Expense Transactions

61. An entity shall disclose the significant judgments, and changes in judgments, made regarding the recognition of transfer right assets from transfer expense transactions. In particular, an entity shall explain the basis for the recognition of its transfer right assets.

Effective Date and Transition

Effective Date

62. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2026, it shall disclose that fact and shall apply IPSAS 47, *Revenue*, at the same time.**

63. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

64. **An entity shall apply this Standard using one of the following two methods:**

    (a) **Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or**

    (b) **Retrospectively to each prior reporting period presented in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 48.

AG1. This application guidance is organized into the following categories:

(a) Scope (paragraphs AG2-AG3);

(b) Definitions (paragraphs AG4-AG9);

(c) Identifying the Transfer Expense Transaction (paragraph AG10);

(d) Binding Arrangements and Enforceability (paragraphs AG11-AG29);

(e) Derecognition of the Transferred Resources (paragraph AG30);

(f) Identifying Transfer Rights (paragraphs AG31-AG34);

(g) Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs AG35-AG49);

(h) Allocating the Transfer Consideration to Transfer Rights (paragraphs AG50-AG51); and

(i) Presentation: Display and Disclosure (paragraph AG52); and

(j) Application of Principles to Specific Transactions (paragraphs AG53-AG55).

Scope (paragraphs 3-5)

AG2. The scope of this Standard is focused on establishing principles and requirements when accounting for transfer expenses, where an entity provides a good, service, or other asset to another entity without directly receiving any good, service, or other asset in return.

AG3. This Standard does not address transactions where an entity receives any good, service, or other asset in return for the good, service, or other asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.

Definitions (paragraphs 6-7)

Binding Arrangement

AG4. An entity shall consider the terms of the transfer, and all relevant facts and circumstances, when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to transfers with similar characteristics and in similar circumstances.

Transfer Expense

AG5. This Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which the transfer provider (the entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, or an individual) without directly receiving any good, service, or other asset in return.

AG6. As noted in paragraph AG9, a transfer right asset is not considered a good, service, or other asset that is received directly from the transfer recipient.

Transfer Obligation and Transfer Obligation Liability

AG7. Binding arrangements confer rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations from a binding arrangement to transfer resources as transfer obligations. The liability recognized for the existence of one or more transfer obligations arising from a binding arrangement is referred to as a transfer obligation liability.

Transfer Recipient

AG8. A transfer recipient is an entity (which may be a public sector entity, a not-for-profit organization, an individual or another entity) that receives a good, service, or other asset from the transfer provider without directly providing any good, service, or other asset to that entity. While the transfer recipient does not provide any good or service to the entity, it may provide a good or service to a third-party beneficiary in accordance with a binding arrangement between the transfer recipient and the entity.

Transfer Right and Transfer Right Asset

AG9. An entity's transfer right is the enforceable right to have the transfer recipient satisfy its obligations and arises where the entity has transferred resources to the transfer recipient in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations within the binding arrangement. A transfer right asset is not a good, service, or other asset to be directly received by the entity in return for transferring resources to the transfer recipient because:

(a) A transfer right asset is not a good or service;

(b) The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity.

(c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.

Identifying the Transfer Expense Transaction (paragraphs 8-9)

AG10. This Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this Standard to a portfolio of transfers with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Binding Arrangements and Enforceability (paragraphs 10-16)

Binding Arrangement

AG11. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement.

AG12. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or

executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

AG13. In accordance with paragraph 11, the assessment of whether an arrangement is enforceable is based on an entity's ability to enforce the specified terms and conditions of the binding arrangement and the satisfaction of the other parties' stated obligations. Consequently, an entity's intentions about enforcing the binding arrangement do not affect the existence of a binding arrangement unless these intentions have been communicated to the transfer recipient such that they affect the enforceability of the binding arrangement.

AG14. Binding arrangements confer both rights and obligations on the parties to the arrangement. This Standard refers to the entity's obligations as transfer obligations. The entity also has rights to have the transfer recipient satisfy its obligations. This Standard refers to these rights as transfer rights.

Enforceability

AG15. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.

AG16. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the arrangement.

AG17. In the public sector, an arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:

(a) Distinct rights and obligations for each involved party; and

(b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.

AG18. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the

arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).

AG20. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the agreed-upon obligations in the arrangement.

AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.

AG22. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.

AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.

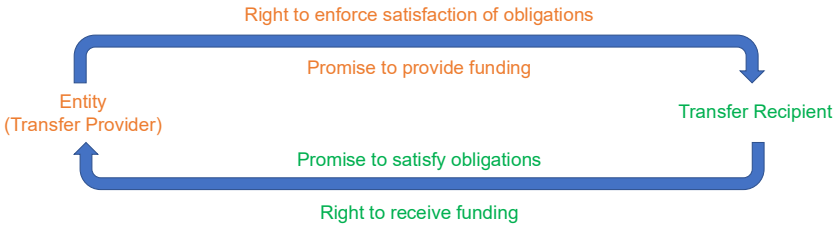
AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgment based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.

AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Parties in a Binding Arrangement

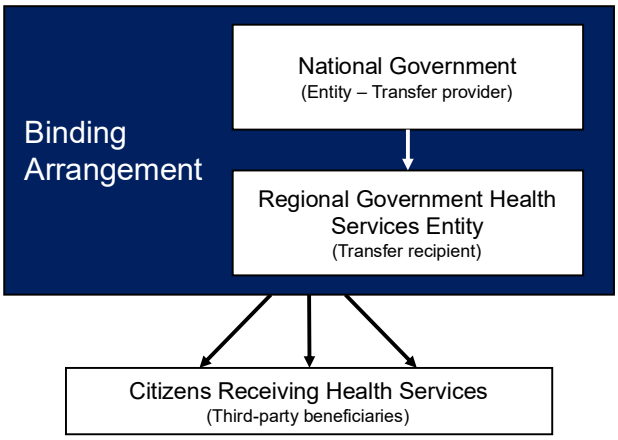
AG26. Arrangements in the public sector often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.

AG27. That is, at a minimum, the entity must be able to enforce satisfaction of the obligations assumed by the entity receiving the consideration, and the entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



AG28. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services.

AG29. However, for these multi-party arrangements to be classified as transfer expenses with binding arrangements, the entity must have the ability to compel the transfer recipient to deliver goods, services, or other assets to the third-party beneficiaries. In these multi-party arrangements, the transfer recipient is not an agent of the entity because the transfer recipient gains control of the resources from the entity and is responsible for providing goods, services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram.



Derecognition of the Transferred Resources (paragraphs 18 and 22)

AG30. For both transfer expenses transactions with and without binding arrangements:

(a) Prior to the transfer of a non-financial asset to a transfer recipient, the entity should consider paragraph 27(d) of IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment;

(b) The consideration in paragraph AG30(a) does not apply to financial assets to be transferred, as the potential impairment of financial assets is assessed continuously in accordance with the requirements of IPSAS 41, *Financial Instruments*; and

(c) When the transferred resources are derecognized, an entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

Identifying Transfer Rights (paragraph 21)

AG31. Transfer rights provide the basis of the timing of recognition for transfer expenses. This Standard requires transfer expenses with binding arrangements to be recognized as or when a transfer right is extinguished, and therefore requires the entity to allocate the transfer consideration to transfer rights.

AG32. A transfer right is identified as a distinct right that can be enforced separately from other rights in the binding arrangement. Typically, from the entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.

AG33. The entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.

AG34. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligations that are distinct. In such cases, the entity shall identify the binding arrangement as a single transfer right.

Recognition of Transfer Expenses from Transactions with Binding Arrangements (paragraphs 22-25)

Recognition at Inception of a Binding Arrangement

AG35. In accordance with paragraph 15, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, an entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.

AG36. Individual transfer rights and transfer obligations are recognized as items (assets, liabilities and expenses depending on their nature) only when or as one or more parties to the binding arrangement satisfy their stated obligations. An entity shall account for these items in accordance with paragraphs 22-25.

AG37. Where parts of the binding arrangement remain equally unsatisfied, the entity shall not recognize any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Derecognition of the Transfer Right Asset

AG38. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the entity's corresponding transfer right is extinguished.

AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.

AG40. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When an entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement. A method would not provide a faithful depiction of the progress towards complete

extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, an entity should apply judgment.

AG41. In some situations, a transfer right asset may be derecognized when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 26). A transfer right asset may also be derecognized if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph AG15).

AG42. If the entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the entity's transfer right will no longer exist at the time of transfer, and an expense is recognized upon the transfer of resources.

Recognition of a Transfer Obligation Liability

AG43. If the transfer recipient has satisfied its obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date. As the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the entity recognizes a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognized liability.

AG44. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed-upon milestone or upon complete satisfaction of the obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, an entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.

AG45. In some binding arrangements, an entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement. If an entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails to satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to satisfy its obligations and require the entity to pay the consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the entity to satisfy its transfer obligations.

AG46. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement.

AG47. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for satisfaction of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by an entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for satisfaction of its obligations completed to date. This is because, for example, the binding

arrangement could specify that the consideration transferred by the entity is refundable for reasons other than the transfer recipient failing to satisfy its obligations as promised in the binding arrangement.

Interaction Between Transfer Right Assets and Transfer Obligation Liabilities

AG48. After recognition, the transfer right asset shall be increased by the carrying amount of additional resources transferred and decreased by the amount of expenses or any impairment recognized, until the carrying amount of the transfer right asset is zero. At that point, any further satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.

AG49. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognized and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognized as a transfer right asset.

Allocating the Transfer Consideration to Transfer Rights (paragraphs 38-39)

AG50. Where a binding arrangement specifies the amount of stand-alone consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).

AG51. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.

Presentation: Display and Disclosure (paragraphs 44-61)

AG52. Paragraph 49 requires transfer expenses to be included in the analysis of expenses, either presented on the face of the statement of financial performance or disclosed in the notes. To meet this requirement and the disclosure objective in paragraph 50, an entity shall provide sufficient information in the analysis of expenses, along with a description of the nature of the entity's operations and principal activities as required by paragraph 150 of IPSAS 1, *Presentation of Financial Statements*, to enable users to understand how the entity's resources are spent on its programs, activities and services.

Application of Principles to Specific Transactions

Capital Transfers

AG53. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.

AG54. An entity shall account for a capital transfer transaction by applying paragraphs 21-25. An entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 21 then separately account for each transfer right by applying paragraphs 22-25. In situations where an entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon the transfer of resources, the entity typically recognizes a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.

AG55. Some binding arrangements for capital transfers may include a transfer right for the acquisition or construction of a non-financial asset, which meets the definition of a capital transfer, and separate transfer rights for the operation of the asset, which would not meet the capital transfer definition. The entity determines

whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset once constructed or acquired.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 48.

Introduction

BC1. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. For many governments, the delivery of services to the public through social benefits, collective and individual services, and transfer expenses accounts for a significant portion of their expenditures.

BC2. In March 2015, the IPSASB approved a project brief to develop the requirements for accounting for non-exchange expenses, other than social benefits. The project brief acknowledged that there has been little guidance on non-exchange transactions from the provider's perspective and that this area was a gap in the IPSASB's literature.

BC3. The IPSASB undertook a phased program of work to address non-exchange transactions from the provider's perspective, beginning with IPSAS 42, *Social Benefits*, which was issued in January 2019, then continuing with *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020.

BC4. For the remaining non-exchange expenses, the IPSASB released a Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, in August 2017 to seek constituent views on potential recognition and measurement for both revenue and non-exchange expenses. The CP:

(a) Proposed replacing the then-current IPSAS dealing with revenue from exchange transactions and construction contracts with an IPSAS based on IFRS 15, Revenue from Contracts with Customers;

(b) Proposed updating IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) to address issues identified by users; and

(c) Considered recognition approaches for significant non-exchange expense transactions.

Development of Exposure Draft 72, Transfer Expenses *(ED 72)*

BC5. Based on constituents' feedback on the CP, the IPSASB developed ED 72The ED:

(a) Proposed a definition for transfer expense;

(b) Proposed the classification of transfer expenses based on whether the transfer recipient has at least one performance obligation; and

(c) Proposed accounting and disclosure requirements for:

(i) Transfer expenses without performance obligations; and

(ii) Transfer expenses with performance obligations, which were largely based on application of the Public Sector Performance Obligation Approach (PSPOA) and mirrored the accounting for revenue with performance obligations.

BC6. In February 2020, the IPSASB published ED 72, together with ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. The three EDs were released together to highlight the linkages between the accounting for revenue and transfer expenses.

Feedback from Constituents on ED 72

BC7. The IPSASB received a broad and diverse set of comment letters in response to ED 72. While the feedback indicated that some constituents supported the proposals, the following significant concerns were also identified:

(a) The distinction between transfer expenses with and without performance obligations appeared to be unnecessary or artificial, as there was no economic difference between these transactions from a transfer provider's perspective;

(b) The distinction based on performance obligations also did not reflect the way transfer expense transactions were carried out in the public sector, as under ED 72, only transfer expenses where the transfer recipient had at least one performance obligation could result in the recognition of an asset. Many respondents identified examples of transactions where they retained control over the transferred resources (and thus did not immediately derecognize the asset), even if the transfer did not involve performance obligations;

(c) The proposals in ED 72 required a transfer provider to consider the transaction from the transfer recipient's perspective and assumed that the transfer provider has access to information regarding the transfer recipient's performance obligations. Many respondents noted that this assumption is not realistic and will lead to practical difficulties in applying the proposed guidance;

(d) In ED 72, only transfer expenses with performance obligations could result in the recognition of an asset. Respondents noted that this accounting model did not necessarily achieve consistency in accounting principles, particularly with asset recognition principles in The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework); and

(e) The majority of respondents commented that because the proposed disclosures in ED 72 were based on the disclosure requirements from IFRS 15, they did not reflect the nature of transfer expenses, which have different characteristics and risks. Some respondents noted that the proposed disclosures would also impose an administrative burden that is disproportionate to any benefits for users.

Discussion with the IPSASB Consultative Advisory Group (CAG)

BC8. The IPSASB consulted the CAG at its December 2020 and June 2021 meetings on significant issues highlighted by respondents. CAG members provided input and advice that helped the IPSASB consider and address issues.

IPSASB's Response to Feedback on ED 72

BC9. In light of the responses to ED 72, the IPSASB decided not to proceed with the proposals in ED 72 and to revisit the proposed accounting and disclosures for transfer expenses to:

(a) Use the transfer provider's perspective when developing accounting and disclosure requirements;

(b) Move away from the PSPOA and the distinction between transfer expenses with and without performance obligations;

(c) Focus on whether the transfer results in the recognition of an asset when developing accounting requirements;

(d) Use binding arrangements as a fundamental concept for transfer expense accounting;

(e) Where appropriate, simplify presentation and disclosure requirements; and

(f) Revise the illustrative examples to reflect the above changes in the proposed accounting and disclosures for transfer expenses.

Scope (paragraphs 3-5)

BC10. When the IPSASB developed ED 72, the Board had noted that the main group of non-exchange expense transactions which were not already addressed by IPSAS 41, *Financial Instruments*, IPSAS 42 or the amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, consisted of grants,

contributions, and other transfers. The IPSASB noted at the time that this group of transactions was covered by the definition of 'transfers' in the statistical reporting frameworks and that aligning the scope of ED 72 with the definition of 'transfers' in the statistical reporting frameworks would be consistent with the IPSASB's Policy Paper, *Process for Considering GFS Reporting Guidelines During Development of IPSAS*. As a result, the IPSASB agreed to align the scope of ED 72 with the definition of 'transfers' (see paragraph 6) in the statistical reporting frameworks. This scoping decision was retained in IPSAS 48, *Transfer Expenses*.

BC11. The IPSASB also decided that contributions from owners and distributions to owners did not meet the definition of transfers and were consequently outside the scope of IPSAS 48.

BC12. The IPSASB considered whether IPSAS 48 should explicitly state that onerous contracts are not applicable to transfer expenses and noted that when IPSAS 19 was developed from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the definition of 'onerous contract' was modified to explicitly refer to the exchange of assets or services. Because transfer expenses are defined as transactions where an entity provides a good, service, or other asset without directly receiving any good, service, or other asset in return, the IPSASB concluded that transfer expenses could not meet the definition of an 'onerous contract'. Therefore, no explicit scope exclusion is required.

Definitions (paragraphs 6-7)

BC13. As noted in paragraph BC10, the IPSASB had decided to align the definition of 'transfer' with the definition in the statistical reporting frameworks. The *Government Finance Statistics Manual 2014* (GFSM 2014) defines a transfer as follows:

A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.

BC14. Having agreed to use the GFSM 2014 definition of 'transfer' as the basis for the scope of ED 72, the IPSASB had agreed to base the definition of 'transfer expenses' in ED 72 on the GFSM definition. The IPSASB had agreed to adopt the term 'transfer expenses,' as the term 'transfers' had previously been used in IPSAS 23, where the term 'transfers' referred to inflows (i.e., revenue) only. In IPSAS 23, the term 'transfers' also excluded taxes, and the IPSASB had agreed to exclude taxes from the definition of 'transfer expenses' for consistency.

BC15. The definition of 'transfer expense' and the exclusion of taxes was retained in IPSAS 48, as the definition of 'transfer' in IPSAS 47, *Revenue*, also only referred to revenue and excluded taxes.

BC16. As noted in paragraph BC9, the IPSASB decided to revisit the proposed accounting model for transfer expenses. Based on the revisions, as explained in paragraphs BC20-BC30, the IPSASB agreed to define the following terms in IPSAS 48:

(a) Transfer obligation;

(b) Transfer obligation liability;

(c) Transfer right; and

(d) Transfer right asset.

BC17. IPSAS 48 complements IPSAS 47 and relies on certain definitions in IPSAS 47 where possible (see paragraph 7). In some cases, the switch in perspective from recognizing revenue to recognizing an expense required a modification to the definitions. Consequently, the IPSASB agreed to define the following additional terms in IPSAS 48:

(a) Stand-alone consideration; and

(b) Transfer consideration.

These definitions are based on the definitions of ‘stand-alone value’ and ‘transaction consideration’ in IPSAS 47.

BC18. This Standard refers to the party providing resources in a transfer expense transaction as the ‘transfer provider’, while IPSAS 47 refers to the party providing resources in a revenue transaction as the ‘resource provider’. The IPSASB considered whether the same term should be used in both Standards and decided that because the scope of IPSAS 47 is broader and encompasses revenue from transfers and other transactions, a more generic term (resource provider) should be used for revenue.

BC19. The IPSASB also considered the definition of ‘expenses’ in IPSAS 1, *Presentation of Financial Statements*, as well as the definition of ‘constructive obligation’ in IPSAS 19 and concluded that no changes were required. The IPSASB agreed to include cross-references to these definitions in IPSAS 48 (see paragraph 7 of IPSAS 48).

Identifying the Transfer Expense Transaction (paragraphs 8-9)

BC20. Based on the decision to revisit the general accounting model for transfer expenses, the IPSASB decided that the key transfer expense accounting principle is whether the transaction results in the recognition of an asset by the entity. Transfer transactions which do not result in the recognition of an asset are generally recognized as a transfer expense when the entity loses control of the transferred resources or when the entity has incurred an obligation to transfer resources. The IPSASB also decided that when the entity has incurred an obligation to transfer resources, it recognizes a liability and a transfer expense.

BC21. To operationalize the decisions in paragraph BC20, the IPSASB noted that whether the transaction arises from a binding arrangement provides inputs into the assessment of whether the asset recognition criteria is met and whether the entity has an obligation to transfer resources. Therefore, the IPSASB decided to move away from classification based on performance obligations and to classify transfer expenses based on whether they arise from transactions with or without binding arrangements.

Binding Arrangements and Enforceability (paragraphs 10-17)

BC22. The decision to classify transfer expenses based on whether or not the transfer expense arises from a binding arrangement is consistent with the decision on how revenue should be categorized. As outlined in the Basis for Conclusions in IPSAS 47, the IPSASB clarified the impact of binding arrangements and enforceability in IPSAS 47 and agreed that these clarifications also apply to transfer expenses.

BC23. This decision had the following impacts on the development of IPSAS 48:

(a) The definition of a ‘binding arrangement’ was carried over from IPSAS 47;

(b) The guidance on how to determine if an arrangement is enforceable through legal or equivalent means by considering all relevant factors and whether the arrangement meets the definition of a binding arrangement was also carried over;

(c) Enforceability is based on the entity’s ability to enforce the terms of the binding arrangement, including imposing non-compliance requirements on parties that do not fulfill their agreed-upon obligations;

(d) The assessment of enforceability for transfer expenses occurs at the inception of a binding arrangement and when a significant internal or external change indicates that there may be a change in enforceability;

(e) In a binding arrangement, each party will have at least one enforceable right and one obligation;

(f) For transfer expenses with binding arrangements, there is no initial recognition when none of the parties has started to satisfy its stated obligations under the binding arrangement;

(g) Because an entity's right and obligation within a binding arrangement are directly linked and interdependent, when both the entity and transfer recipient begin to perform in accordance with the binding arrangement, the resulting transfer right assets and transfer obligation liabilities arising from the same binding arrangement are presented as a single asset or liability in the statement of financial position; and

(h) Where a transfer expense arises from a transaction that is subject to an appropriation, the appropriation may limit the enforceability of the related arrangements and impact whether they are binding. The IPSASB noted that this conclusion results from the application of the principles on binding arrangements and enforceability, and therefore developed implementation guidance on how appropriations could impact transfer expense transactions.

Transfer Expenses from Transactions without Binding Arrangements (paragraphs 18-20)

BC24. The IPSASB decided that when a transfer expense arises from a transaction without a binding arrangement, there is no basis for the recognition of a transfer right asset from the transfer of resources. (That is, the recognition of a transfer right asset is only possible when a transfer arises from a binding arrangement—see paragraph BC27.) In these cases, the IPSASB decided that when the transfer occurs and control of the asset is lost, the entity derecognizes the transferred asset and recognizes a transfer expense at the asset's carrying amount.

BC25. The IPSASB noted that even when there is no binding arrangement, an entity may still have a one-way enforceable right which results in retaining control of the resources after they are transferred. In these cases, the entity would consider the principles in the Conceptual Framework and IPSAS 1, and whether it should recognize an asset. Because this asset's recognition is driven by the definition of an asset in IPSAS 1, the IPSASB decided to include implementation guidance on these situations, and no additional authoritative text is required.

BC26. The IPSASB also noted that even when there is no binding arrangement, if facts and circumstances result in a legal or constructive obligation to transfer resources, the entity is required to recognize a liability in accordance with IPSAS 19. IPSAS 48 refers to this liability as a transfer obligation liability.

Transfer Expenses from Transactions with Binding Arrangements (paragraphs 21-43)

Recognition

BC27. The IPSASB decided that when an entity begins to transfer resources as specified in a binding arrangement, the transfer results in a transfer right (i.e., the transfer provider's enforceable right to have the transfer recipient fulfill its obligations, or carry out the non-compliance requirements outlined in the binding arrangement) which meets the definition of an asset in the Conceptual Framework. This is because:

(a) The transfer right embodies a resource (i.e., the right to direct how the transfer recipient is to use resources internally);

(b) The binding arrangement provides the transfer provider with control of the transfer right; and

(c) This control arises from a past event (i.e., the transfer of resources within the context of a binding arrangement).

BC28. The IPSASB decided that an asset recognized to reflect the existence of a transfer right shall be referred to as a transfer right asset. When or as the entity's transfer right is extinguished, the basis of asset recognition no longer exists. Therefore, the related transfer right asset is derecognized and expensed.

BC29. The IPSASB also decided that when a transfer recipient has satisfied its obligations in a binding arrangement, the entity is obligated by the terms of the binding arrangement to transfer resources. This obligation results

in the recognition of a liability in accordance with the Conceptual Framework[4], and IPSAS 48 refers to such a liability as a transfer obligation liability.

Measurement

BC30. The IPSASB made the following decisions regarding the measurement of transfer expenses arising from transactions with binding arrangements:

(a) Similar to transfer expenses from transactions without binding arrangements, the transfer consideration is measured based on the total carrying amount of the transferred resources, adjusted for the effects of variable consideration;

(b) The guidance on variable consideration should refer to the existing recognition and measurement guidance for a provision in IPSAS 19. This is because variable consideration for a transfer expense is of a similar nature as a provision (i.e., a liability of uncertain timing and amount);

(c) The requirement in ED 72 to consider the time value of money and the effect of financing was removed. Many respondents to ED 72 noted that transfers are typically funded in tranches rather than one large upfront payment, so it would be rare for the discounting of transfers to have a material impact on the financial statements; and

(d) The allocation of the transfer consideration to the individual transfer rights in a binding arrangement should be based on the amounts stated in the binding arrangement, or if not explicitly stated, the amounts that the entity intends to compensate the transfer recipient for satisfying each of its compliance obligations in the binding arrangement. The IPSASB noted that this simplification is appropriate because:

(i) A transfer provider would be fully aware of how much it is willing to pay for each transfer right when negotiating the binding arrangement with the transfer recipient; and

(ii) The allocation requirements are more robust for revenue because, in addition to potentially changing the timing of revenue recognition, an inappropriate allocation for revenue could obscure the margins for certain goods or services or delay the recognition of losses. These additional concerns are not applicable for transfer expenses.

Presentation (paragraphs 44-61)

BC31. As noted in paragraph (e), respondents to ED 72 raised concerns that the proposed disclosures were overly burdensome and did not focus on the nature and risks of transfer expense transactions. To address these concerns, the IPSASB decided to significantly reduce the required display and disclosures requirements to focus on the following areas:

(a) Display and disclosure of transfer expenses and related balances – The IPSASB noted that many of the display and disclosure requirements in existing IPSAS are applicable to transfer expenses and related balances. These include:

(i) The analysis of expenses, as well as the display and disclosure of prepayment assets and transfers payable in IPSAS 1;

(ii) The display and disclosure requirements in IPSAS 28*, Financial Instruments: Presentation*, and IPSAS 30, *Financial Instruments: Disclosures*, are applicable to financial assets, as well as

[4] The IPSASB referred to the definition of a liability in the Conceptual Framework rather than IPSAS 1 at this stage, as IPSAS 1 has not yet been updated for the proposed changes to the framework.

transfer obligation liabilities which meet the definition of financial liabilities, which arise from a transfer expense transaction; and

(iii) The display and disclosure requirements in IPSAS 19 are applicable to provisions recognized for constructive obligations or variable consideration.

As a result, the IPSASB decided to cross-reference to these requirements rather than develop new display and disclosure requirements;

(b) Qualitative information regarding transfer arrangements – To enable users of the financial statements to understand the nature, amount, timing, and uncertainty arising from transfer expenses, the IPSASB decided to require the disclosure of certain qualitative information for both binding arrangements and non-binding arrangements regarding transfer expenses; and

(c) Significant judgments made regarding the recognition of transfer right assets – Because expenditures for programs and activities are typically expensed in the statement of financial performance, the recognition of a transfer right asset is not in line with general expectations. Therefore, the IPSASB decided to require the disclosure of significant judgments that led to the recognition of transfer right assets.

BC32. In addition, respondents to ED 72 had previously raised concerns over the complexity and value of reconciliations for opening and ending balances of transfer right assets and transfer obligation liabilities. Respondents also noted that these items are similar in nature to prepayment assets and transfers payable, which do not require such disclosures. Based on the feedback received, the IPSASB decided to remove the requirement to disclose these reconciliations.

BC33. The IPSASB decided to use the terms ‘transfer provider’, ‘transfer recipient’, ‘transfer right asset’ and ‘transfer obligation liability’ but this Standard does not prohibit an entity from using alternative descriptions in the financial statements for those terms. In addition, because this Standard refers to the disclosure requirements in other IPSAS as noted in paragraph BC31, an entity need not repeat the disclosure of information in accordance with this Standard if it has provided the information in accordance with another Standard.

Effective Date and Transition (paragraphs 62-64)

BC34. When ED 72 was developed, the transition provisions, including the practical expedients available, largely mirrored those from the revenue EDs. Some respondents noted that even with the practical expedients, the retrospective transitional provisions in ED 72 were onerous, with benefits not outweighing the costs, and could lead to practical difficulties in applying the final standard.

BC35. Based on the feedback received, the IPSASB noted that allowing prospective application of IPSAS 48 would not result in a significant loss of information because:

(a) If a transfer expense was fully expensed in the prior period, the transfer of resources would have already occurred and would have been reported in the prior period financial statements. Even if the expensed amount would have qualified for asset recognition in accordance with the revised guidance, requiring an entity to reverse a transfer expense would not result in any new information regarding the underlying expenditure; and

(b) If an entity recognized an asset or liability for a transfer expense transaction by applying the asset or liability recognition and measurement principles of the Conceptual Framework, these principles are already consistent with the revised accounting model for transfer expenses.

BC36. Based on the above reasons, the IPSASB decided to allow prospective application of IPSAS 48 for all transfers occurring on or after the date of initial application. To provide entities with the flexibility to adjust their prior-period financial statements, the IPSASB also decided to include the option to adopt IPSAS 48 on

a full retrospective basis in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Application Guidance

BC37. The IPSASB considered the interaction between transfer expenses and the potential impairment of the assets to be transferred. The IPSASB noted that when a decision has been made to transfer a non-financial asset in the context of a transfer expense transaction, the asset is no longer held for the purposes of generating a commercial return and becomes a non-cash-generating asset for impairment purposes. Before the asset is transferred, the entity should consider if the decision to transfer the asset results in a significant change in use, which is an indicator to consider impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*. The IPSASB also noted that this separate consideration of impairment is not applicable to financial assets, as IPSAS 41 requires such assets to be assessed for impairment continuously. These decisions have been reflected in application guidance, as they relate to the application of existing IPSAS rather than new principles.

BC38. The IPSASB noted the revised general accounting model for transfer expenses arising from transactions with binding arrangements fully addresses transactions involving capital transfers. Therefore, the IPSASB decided that capital transfers should be addressed in application guidance and implementation guidance, and that no separate principles are required to be developed.

Consideration of Re-Exposure

BC39. The IPSASB considered whether there had been a substantial change to the ED such that re-exposure may be necessary:

(a) The IPSASB discussed the differences between IPSAS 48 and ED 72 issued in 2020. In particular, the IPSASB discussed the accounting for transfers from the transfer provider's perspective and the use of a rights-based approach to asset recognition rather than the PSPOA. The IPSASB agreed that the changes made since the ED process addresses issues raised by constituents, and results in a clearer Standard. Although there were differences in the drafting and the mechanics in the Standard, there were no significant changes to the intended accounting for transfer expenses.

(b) The IPSASB noted that issuance of IPSAS 48 fills a gap in the IPSAS suite of standards. The IPSASB agreed that, from a public interest perspective, the expected costs of re-exposure, including delayed implementation of the standard that constituents are actively seeking, outweigh the potential benefits of re-exposure.

BC40. Based on the above assessment, the IPSASB decided to approve IPSAS 48 without re-exposure and to finalize and issue the Standard.

Revision of IPSAS 48 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024.

Introduction

BC41. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[5].

[5] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

BC42. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC43. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC44. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[6], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[7], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable in 2026 onwards.

BC45. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for the concession in concessionary leases for lessees in IPSAS 47 to update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC46. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48), regarding the amendments to IPSAS 48 including respondents' feedback to ED 88.

Scoping

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC47. Some respondents suggested the IPSASB consider the linkages between ED 84 proposals and IPSAS 48 relating to concessionary leases and right-of-use assets in-kind, as this Standard was published after the publication of ED 84.

BC48. The IPSASB considered the linkages between ED 84 proposals and IPSAS 48 relating to concessionary leases and right-of-use assets in-kind and concluded that no changes were required to scoping in IPSAS 48 because:

(a) Leases, which includes concessionary leases, are explicitly scoped out of IPSAS 48; and

(b) Arrangements that convey the right to use an underlying asset for zero consideration are within the scope of IPSAS 48.

Illustrative Examples

BC49. The IPSASB proposed illustrative examples on right-of-use assets in-kind and social housing without consideration to address the need for guidance on these arrangements raised by respondents to the RFI.

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[6] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[7] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions* (Taxes and Transfers).

Responses to ED 88, *Arrangements Conveying Rights over Assets*

BC50. Respondents to ED 88 suggested removing the illustrative example on social housing without consideration because the accounting outcomes are the same as for the illustrative example on right-of-use assets in-kind. The IPSASB agreed with this suggestion and decided to remove the illustrative example on social housing without consideration when finalizing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48).

BC51. Respondents to ED 88 also suggested adding illustrative examples on concessionary leases for lessors, but the IPSASB decided not to proceed with this suggestion because the accounting for concessionary leases by lessors is the same as for leases at market terms.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 48.

Section A: Definitions

A.1 Capital Transfers

When is a transfer of a physical asset a 'capital transfer'?

It depends on what the binding arrangement requires the transfer recipient to do with the asset.

A transfer of a physical asset is a 'capital transfer' if the entity transfers the physical asset within a binding arrangement and the transfer recipient is required by the binding arrangement to use the physical asset received to acquire or construct another non-financial asset that it will subsequently control. A transfer of a physical asset which only has a requirement to be used or operated in specific manner would not meet the definition of a 'capital transfer'.

Section B: Identifying the Transfer Expense Transaction

B.1 Identify Whether a Binding Arrangement Exists

Does the way in which an entity transacts with others impact the accounting?

Yes. Public sector entities may transact in different ways. These may vary in form, include multiple parties, confer rights and/or obligations on one or more of the parties in the arrangement, and have varying degrees of enforceability, which overall determine the economic substance of the transaction. Binding arrangements, in particular, confer both enforceable rights and enforceable obligations on the parties to the arrangement through legal or equivalent means. The enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of such transactions (in comparison with transactions without binding arrangements), thereby informing the recognition and measurement of transfer expenses to ensure fair presentation of such transactions.

Correctly identifying whether or not the transfer expense transaction arises from a binding arrangement is integral to correctly applying this Standard. The entity is required to determine what type of arrangement it has entered into, by considering the terms of its transfer expense transaction and all relevant facts and circumstances, to apply the appropriate accounting principles to reflect the economic substance of the transaction (see paragraphs 10-16).

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit

consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

(a) The substance, rather than the form, of the arrangement;

(b) Terms that are written, oral, or implied by an entity's customary practices;

(c) Whether it is legally binding through legal (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence) or equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);

(d) Consequences of not satisfying the obligations in the arrangement;

(e) The specific jurisdiction, sector, and operating environment; and

(f) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgment and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG15-AG25 provide further guidance on assessing enforceability through legal or equivalent means.

B.3 Enforceability: Transfers Subject to Appropriations

Can an appropriation give rise to a transfer expense?

An appropriation is defined in IPSAS 24, *Presentation of Budget Information in Financial Statements*, as an authorization granted by a legislative body (i.e., the enabling authority) to allocate funds for purposes specified by the legislature or similar authority.

An appropriation itself typically does not result in an accounting event or transaction. However, like other transfers that do not arise from a binding arrangement, there may be situations when an appropriation, in combination with external announcements or other communications, may create a valid expectation with other parties that the entity which approved the allocation of funds is accepting and discharging certain responsibilities. In these situations, IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, is applicable, and a provision is recognized if a legal or constructive obligation exists. If an appropriation does not give rise to a legal or constructive obligation, the entity accounts for the subsequent transfer by applying the principles in this Standard.

How should an entity consider the impact of appropriations on its transfer expense transactions arising from binding arrangements?

Appropriations on their own do not prove, nor refute, the existence of enforceability within an arrangement. An entity should consider any appropriation clauses as one of the relevant factors in its overall assessment of enforceability, in the context of its specific jurisdiction and the unique terms and conditions of each arrangement.

A binding arrangement may specify that the resources to be transferred to a transfer recipient by an entity are subject to an appropriation process being completed by an unrelated third-party in accordance with the laws and regulations in the jurisdiction. The entity considers whether, in substance, the arrangement is enforceable because mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity.

If the limitation (that the resources to be transferred are subject to an appropriation) has substance, the arrangement is not enforceable and thus not a binding arrangement, as the transfer recipient cannot establish an enforceable right to those resources before the appropriation process is completed.

In other circumstances, a transfer that is subject to appropriations could still be enforceable if the arrangement is set up in a way that the mechanisms of enforceability enable the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose consequences on the entity, prior to the appropriation process being completed.

In some jurisdictions, the authorization for a transfer of resources may go through a multiple step process. For example:

(a) The enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of an entity;

(b) The exercise of that authority has occurred. In essence, a decision by the approved enabling authority clearly demonstrates that a transfer recipient has an enforceable right to the transfer of the promised resources, and consequently the entity has lost its discretion to avoid proceeding with the transfer, for example through entering into a binding arrangement; and

(c) The authority to pay is evidenced by the completion of an appropriation process.

The enabling authority, together with the exercise of that authority, may be sufficient for an entity to conclude that the transfer recipient has an enforceable right to those resources in the arrangement that enables the transfer recipient to require the entity to transfer the resources or, if the entity fails to do so, enable the transfer recipient to impose non-compliance requirements on the entity, prior to the completion of the appropriation process. In such circumstances, the limitation (that the future transfer is subject to the completion of the appropriation process) does not have substance.

In other cases, the completion of the appropriation process may determine when an entity has lost its discretion to avoid proceeding with a transfer. In such circumstances, the limitation (that the future transfer is subject to the appropriation process being completed) has substance.

B.4 Changes in Factors Related to the Enforceability of a Binding Arrangement

Does a change in internal or external factors, after the inception of a binding arrangement, have accounting implications?

At inception, an entity considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding arrangement in paragraph 7. If it meets the definition, the entity accounts for the transfer expense arising from the binding arrangement in accordance with paragraphs 21-43.

After inception, an entity should assess whether any changes in internal or external factors affect the enforceability of the binding arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding arrangement (i.e., the subsequent measurement of any assets or liabilities associated with the entity's right(s) and obligation(s) in the binding arrangement). Examples of such factors include, but are not limited to:

(a) Changes in the legal framework impacting the ability of the entity, or other party or parties in the arrangement, to enforce their respective rights through legal or equivalent means; and

(b) Changes in the entity's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding arrangement.

The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with this Standard, IPSAS 19 or IPSAS 41, *Financial Instruments*.

Section C: Transfer Expenses from Transactions without Binding Arrangements

C.1 Accounting for Transfers Arising from Transactions without Binding Arrangements

When the entity transfers resources in a transaction without binding arrangements, is it possible for the transfer to result in the recognition of a transfer right asset?

No. Because a transfer right asset is defined as an asset recognized for the existence of one or more transfer rights arising from a binding arrangement, it will not be possible to recognize a transfer right asset without a binding arrangement.

However, it is possible for an entity to have an enforceable right over transferred assets (for example, the right to direct the recipient on how to use resources) without an enforceable obligation as the result of a transfer expense transaction without binding arrangements. In such cases, the transfer would result in the recognition of an asset which would be derecognized when or as the enforceable right is extinguished.

Section D: Transfer Expenses from Transactions with Binding Arrangements

D.1 Identifying Transfer Rights in a Binding Arrangement

How does an entity determine the individual transfer rights in a binding arrangement in order to appropriately apply the accounting model for transactions with binding arrangements?

From the transfer provider's perspective, a binding arrangement has at least one transfer right. A transfer right, as defined in paragraph 6, is a unit of account to determine the distinct components or elements within a binding arrangement. Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of transfer expenses. In practice, since binding arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, an entity must use professional judgment as it applies paragraphs 21 and AG31-AG34 to determine the individual transfer rights in its binding arrangement.

An entity should first identify all the rights to require the transfer recipient to satisfy its compliance obligation(s) in a manner as specified in the binding arrangement. In the context of a binding arrangement for transfer expenses, rights include the ability to require the transfer recipient to use resources for a good or service internally or to transfer a good, service, or other asset (which could include cash) to a third party or third parties. A thorough assessment is necessary for the entity to identify all of its rights in the binding arrangement.

An entity then considers each identified right to determine if a right is itself a distinct transfer right, or whether it should be grouped with other rights to be a single distinct transfer right. Thus, a transfer right is a unit of account that represents a distinct right or group of rights to which recognition criteria and measurement concepts are applied (paragraphs 22-43).

A right in a binding arrangement is distinct if it can be enforced separately from other rights in the arrangement. An entity considers the following factors when assessing whether a right is distinct:

The right relates to the entity's ability to require the transfer recipient to provide a good, service, or other asset that can be provided separately from other goods, services, or assets to be provided under the binding arrangement;

(a) The right relates to the entity's ability to require the transfer recipient to use a good, service, or other asset internally in a specific manner separately from the use of other goods, services, or assets to be used under the binding arrangement; and

(b) The good, service, or other asset that the transfer recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other goods, services, or assets to be provided or used under the binding arrangement.

Any distinct right, or distinct group of rights, identified by the entity through this analysis would be an individual transfer right.

Section E: Recognition of Transfer Expenses from Transactions with Binding Arrangements

E.1 Derecognition of a Transfer Right Asset

An entity has determined that it has one transfer right which is extinguished over time. How does the entity determine a measure of progress that best depicts the extinguishment of its transfer right?

In general, a transfer right is extinguished (and the related transfer right asset is expensed) when or as an entity can no longer require the transfer recipient to act in accordance with the binding arrangement. This often occurs when or as the transfer recipient has satisfied its obligations in the arrangement, so the appropriate method of measuring progress depends on the specific nature of the entity's transfer rights and the specific terms of the binding arrangement. In situations where the binding arrangement consists of one transfer right to have the transfer recipient satisfy various interrelated activities, the transfer right may be partially extinguished as individual activities are being performed by the transfer recipient. Common considerations which could inform when a transfer right has been partially extinguished include:

(a) The transfer recipient has performed activities specified in the binding arrangement;

(b) The transfer recipient has incurred eligible expenditures as outlined in the binding arrangement; and

(c) The transfer recipient has achieved some of the milestones agreed upon in the binding arrangement.

In cases where multiple parties are involved in the arrangement, the entity will need to consider whether a transfer right relates to the right to require another party in the arrangement to satisfy a specific compliance obligation. There may be situations in the public sector where resources are passed through a series of entities before being transferred to the ultimate transfer recipient. In these situations, some binding arrangements may specify that the extinguishment of an entity's transfer right depends on the satisfaction of the ultimate transfer recipient's compliance obligations. Other binding arrangements may result in transfer rights and compliance obligations at each step of the series as resources are being transferred from one entity to the next. An entity will need to consider the terms of the binding arrangements and any relevant facts and circumstance to determine when to derecognize its transfer right assets.

In other cases, a transfer right may be extinguished due to the transfer recipient's inability or unwillingness to satisfy its obligations in the binding arrangement. When this occurs, the entity considers if the terms of the binding arrangement, along with the legal framework in the relevant jurisdiction, give the entity the unconditional right to receive cash (e.g., a refund of the transferred cash). Such an unconditional right results in the derecognition of the transfer right asset and the recognition of a financial asset (see paragraph 26). If the binding arrangement and relevant legal framework do not support the recognition of a financial asset, the transfer right asset is not derecognized, and the entity then considers if the asset has been impaired (see paragraph 43). This topic is further illustrated in Illustrative Example 8 (see paragraphs IE42-IE48).

Section F: Measurement of Transfer Expenses from Transactions with Binding Arrangements

F.1 Allocating the Transfer Consideration to Transfer Rights

How should a public sector entity determine a suitable method for estimating the stand-alone consideration of a transfer right?

Generally, an entity would want to explicitly specify in a binding arrangement the amount of resources it is willing to transfer for each transfer right (i.e., the stand-alone consideration is typically specified for each transfer right). In situations where the stand-alone consideration is not explicitly stated, the Standard requires an entity to determine the best estimate of the amounts that it intends to compensate the transfer recipient for satisfying its obligation when negotiating the binding arrangement.

The most suitable method to estimate the stand-alone consideration will depend on the quality and type of information that is available to the entity. For example, the individuals negotiating a binding arrangement may have contemporaneous records detailing how they estimated the stand-alone consideration for specific transfer rights included in the binding arrangement. Other entities may have detailed internal budget information documenting the resources it is willing to pay for each specific transfer right. In other cases, the individuals negotiating a binding arrangement may be using a standard pricing list from the transfer recipient to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the stand-alone consideration of each transfer right.

Section G: Multi-Year Arrangements

G.1 Accounting for Multi-Year Arrangements

Are different principles required to account for, and recognize transfer expenses from, multi-year arrangements?

Multi-year arrangements, which may arise from transactions with binding arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, the publication of research findings on a specified topic). The provision of resources (e.g., funding) may occur at multiple dates throughout a year and/or across multiple years.

While these arrangements span a longer term, the application of accounting principles is consistent with the accounting for other transfer expense transactions. An entity shall consider whether the multi-year arrangement is a binding arrangement and apply the principles in paragraphs 18-20 for transfer expenses arising without binding arrangements, or paragraphs 21-43 for transfer expenses arising from transactions with binding arrangements. The entity shall consider the recognition of a transfer right asset and/or transfer expense independently from the timing of when resources are physically transferred.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 48.

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 48, *Transfer Expenses*, to particular transfer expense transactions on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 48.

Scope

IE2. Examples 1-2A illustrate the requirements in paragraphs 3-5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48.

Example 1: Transfer Where the Other Party Provides Goods and Services

IE3. An international organization enters a binding arrangement to purchase a vehicle from a dealer for CU30,000.[8] Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

Case A – Vehicle is Provided to the International Organization

IE4. The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the international organization.

IE5. The binding arrangement does not give rise to a transfer expense of the international organization, as the international organization directly receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of IPSAS 48. The international organization applies IPSAS 45, *Property, Plant, and Equipment*, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs and maintenance.

Case B – Vehicle is Provided to a National Government

IE6. In this separate scenario, the binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to a national government (a third-party beneficiary) rather than to the international organization.

IE7. The binding arrangement gives rise to a transfer expense of the international organization, as the international organization transfers the consideration of CU30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the national government, a third-party beneficiary.) The international organization (the transfer provider) applies paragraphs 21-43 of IPSAS 48 in accounting for the transfer, as it arises from a binding arrangement.

Example 2: Research Grants

IE8. A national government enters a binding arrangement with a university whereby the national government will provide the university with a grant of CU25 million to undertake research into the effects of restrictive diets on general health.

[8] In these examples, monetary amounts are denominated in ‘currency units’ (CU).

Case A—National Government Controls Research

IE9. The binding arrangement includes a requirement that the university will transfer the results of the research to the national government, including rights to any intellectual property and/or patents created.

IE10. The binding arrangement does not give rise to a transfer expense of the national government, as the national government directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of IPSAS 48. The national government applies IPSAS 31, *Intangible Assets*, in accounting for the binding arrangement.

Case B—University Controls Research

IE11. The binding arrangement does not require the university to transfer the results of the research to the national government. Rather, the university retains control of the research, including rights to any intellectual property and/or patents created.

IE12. The binding arrangement gives rise to a transfer expense of the national government, as the national government transfers the grant (consideration) to the university without directly receiving any goods or services in return. The national government (the transfer provider) applies paragraphs 21-43 of IPSAS 48 in accounting for the transaction, as it arises from a binding arrangement.

Example 2A – Right-of-Use Assets In-kind: Usage of A Sports Field for Zero Consideration

IE12A. A Government Agency (Agency) enters into an arrangement with a public sector entity Z (Entity Z) for five years conveying the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types and pricing of sports services that Entity Z provides.

IE12B. The binding arrangement includes a compliance obligation, specifically that the sports field should be used by youth. To the extent that the compliance obligation is not met by Entity Z, the binding arrangement is cancelled, and the right to use the sports field returns to the Agency. Entity Z's compliance obligation is met on a straight-line basis.

IE12C. The conveying of the right to use for free a sports field is within the scope of IPSAS 48 because the Agency provides the right to use to Entity Z without directly receiving any good, service, or other asset in return (see paragraph 6). The transfer consideration is already reflected in the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs. No separate accounting is required.

Binding Arrangements and Enforceability

IE13. Examples 3 and 4 illustrate the consideration of binding arrangements and enforceability from paragraphs 10-16 of IPSAS 48.

Example 3: Identifying Whether a Binding Arrangement Exists

IE14. A local government is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake these programs without assistance. The national government decides to transfer CU10 million of surplus funds to the local government to assist with its social programs. The details of the transfer are documented in a "funding agreement." However, the agreement only results in an obligation for the national government to transfer funds and does not provide the national government with any rights to compel the local government to act in a specific manner.

IE15. Since the agreement does not confer both rights and obligations to the national government, it is not a binding arrangement. The national government shall apply the accounting principles in paragraphs 18-20 to account for the transfer.

Example 4: Agreement for Transfer Subject to Completion of the Appropriations Process

IE16. A national government has a financial year end of December 31. On March 15, 20X2, the national government (the transfer provider) enters into an arrangement with a local government (the transfer recipient) to transfer CU15 million to the local government, to be used to build new infrastructure to reduce air pollution. CU10 million is to be transferred in 20X2, and the remaining CU5 million to be transferred in 20X3. As the reduction of air pollution is a priority for the local government, the local government began to build the new infrastructure as soon as the arrangement was signed.

IE17. The arrangement includes a term that the funding is subject to the completion of an appropriation by parliament. Parliament completed the appropriation for CU10 million in 20X2 on October 31, 20X2 and immediately transferred CU10 million to the local government. By the time the appropriation for the CU10 million was completed, the local government had already satisfied the compliance obligations which related to the CU10 million portion of the total transfer. The appropriation process for the CU5 million was not completed in 20X2 but will be considered in the following year as part of the appropriation process for 20X3.

IE18. In determining the effect of the appropriation on the arrangement, the national government considers substance over form, in accordance with paragraphs 10-16 and AG11-AG25.

Case A –Requirement to Complete the Appropriation Process has Substance

IE19. The reduction in air pollution is a local government responsibility, and there is no authorizing legislation that requires the national government to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by parliament. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.

IE20. The national government concludes that it does not have an obligation to transfer the CU15 million (CU10 million in 20X2 and CU5 million in 20X3) until the appropriation process is completed. Consequently, in 20X2, the national government only recognizes an expense of CU10 million to reflect the obligation to pay the local government for its satisfaction of the compliance obligations up to October 31, 20X2. Had the local government not satisfied any of its compliance obligations at the time the CU10 million is transferred, the national government would instead recognize a transfer right asset of CU10 million.

IE21. On March 31, 20X3, parliament completes the appropriation process for the remaining CU5 million. At this date, the national government applies paragraphs 21-26 of IPSAS 48 to assess the accounting implications for the remaining CU5 million.

Case B – Requirement to Complete the Appropriation Process does not have Substance

IE22. In this scenario, the reduction of air pollution is a priority of both the national and local governments, and there is legislation in place which requires the national government to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government falls within the scope of this legislation, so the national government is required by law to complete the appropriation for the CU15 million transfer.

IE23. The national government concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the national government is required by law to complete the appropriation for the CU15 million transfer. Upon execution of the binding arrangement, the national government applies paragraphs 21-26 of IPSAS 48 in determining when to recognize a transfer right asset or a transfer expense.

Transfer Expenses from Transactions with Binding Arrangements

IE24. Example 5 illustrates the principles regarding identification of transfer rights from paragraph 21 of IPSAS 48.

Example 5: Determining Whether Goods or Services are Distinct

Case A – Goods or Services are not Distinct

IE25. The Department of Health (the Department) enters a binding arrangement with the Department of Public Works (Public Works) for Public Works to build a hospital for the Provincial Government, a third-party beneficiary. Under the terms of the binding arrangement, Public Works has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

IE26. To determine if the binding arrangement has more than one transfer right, the Department applies paragraphs 21, AG31-AG34 and considers the factors discussed in Implementation Guidance D.1 of IPSAS 48 to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

IE27. Without the context of the overall arrangement, the rights to have Public Works perform the individual activities such as project management, design, procurement, and construction, could be viewed as distinct rights that can be enforced separately. However, within the context of the binding arrangement, these rights are all highly interdependent (e.g., the construction of the structure can only be performed after completion of the design, engineering, site clearance foundation, and procurement activities) and highly interrelated (i.e., the individual services together result in the building of a hospital.)

IE28. Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph AG33 of IPSAS 48, the Department aggregates these related rights into a single transfer right.

Case B – Goods or Services are Distinct

IE29. A regional government office (Regional Government) enters into a binding arrangement with an IT services agency (the Agency) for the Agency to provide the following to a public sector university in the region (the University, the third-party beneficiary) over a two-year period:

(a) Productivity software for faculty and staff (e.g., word processing and spreadsheet programs);

(b) Website-related services;

(c) Unspecified software updates for security purposes; and

(d) Technical support (online and telephone) to the University’s faculty and staff.

IE30. The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new faculty and staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-related services include hosting and maintaining the websites for the University, its departments, and its faculty and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by faculty and staff throughout the two-year period.

IE31. The Regional Government assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraph 21 of IPSAS 48. In making this assessment, the Regional Government applies the guidance in paragraphs AG31-AG34 of IPSAS 48.

IE32. The Regional Governments observes that:

(a) As noted in paragraph IE30, the Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced;

(b) The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the license and services can be separately enforced; and

(c) The goods or services are neither highly interdependent nor highly interrelated. The Regional Government noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the faculty and staff with the use of the software or websites and does not modify their functionality.

IE33. The Regional Government also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralize the University's purchasing process and potentially negotiate a discount by bundling the license with services.

IE34. On the basis of the above assessment, the Regional Government identifies four transfer rights in the binding arrangement for the following goods or services:

(a) The productivity software;

(b) Website-related services;

(c) Security updates; and

(d) Technical support.

Recognition of Transfer Expenses

IE35. Examples 6-8 illustrate the requirements in paragraphs 22-25 on the overall accounting model for transfer expenses from transactions with binding arrangements:

(a) Example 6 illustrates a scenario where the transfer provider has transferred resources prior to the transfer recipient satisfying its obligations from the binding arrangement;

(b) Example 7 illustrates a scenario where a transfer recipient satisfies its obligations prior to the full transfer of resources; and

(c) Example 8 illustrates the derecognition and impairment of a transfer right asset due to the non-performance by the transfer recipient as discussed in paragraphs 26 and 43 of IPSAS 48.

Example 6: Recognition of a Transfer Right Asset and its Subsequent Derecognition

IE36. The following example expands on the fact pattern presented in Case B of Example 5 and Case A of Example 10 where a regional government office (the Regional Government) entered into a binding arrangement with an IT services agency (the Agency) to provide certain goods and services to a university in the region (the University). In Examples 5 and 10, the Regional Government determined that its transfer rights in the binding arrangement and its allocation of the transfer consideration are as follows:

(a) The productivity software for CU6 million;

(b) Website-related services for CU2 million;

(c) Security updates for CU3 million; and

(d) Technical support for CU1 million.

IE37. The binding arrangement specifies that the transfer of the software occurs and the service period begins upon payment of the entire CU12 million by the Regional Government (i.e., the Regional Government pays upfront). Upon payment of the CU12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.

IE38. The Regional Government recognizes the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognized based on the nature of each transfer right:

(a) Productivity software – The Regional Government observes that the Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software license was extinguished once the software was provided to the University, and CU6 million of the transfer right asset should be expensed at that time;

(b) Website-related services – The Regional Government observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognize CU2 million of the transfer right asset while recognizing a transfer expense over time during the two-year period (e.g., amortizing CU83,333 into expenses each month over the two-year period);

(c) Security updates, and technical support services – The Regional Government's remaining transfer rights relate to services that are performed on an as-needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognize the CU4 million while recognizing a transfer expense over time during the two-year period. (e.g., amortizing CU166,667 into expenses each month over the two-year period).

Example 7: Recognition of a Transfer Obligation Liability

IE39. A municipal government (the Government) enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide copies of an accounting textbook to the public secondary schools in the city (the Schools, the third-party beneficiaries). Because the number of textbooks required by each school is based on the number of students enrolled in the accounting course, the binding arrangement only specifies that the Government will pay the Publisher CU30 per textbook, and the number of textbooks to be provided will be based on enrollment numbers which will be finalized a month before the beginning of the school year.

IE40. Under the terms of the binding arrangement, the Government will provide the enrollment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the textbooks to the Schools at least two weeks before the start of the school year, and the Government will pay the remaining consideration for the textbooks provided within 30 days after the Schools have received the shipments.

IE41. Upon finalization of student enrollment, the enrollment numbers were provided to the Publisher, and 19,800 textbooks were shipped to the Schools. To account for this binding arrangement, the Government applies paragraphs 22-25 of IPSAS 48:

(a) Upon entering the binding arrangement, no accounting occurs as neither party has started to satisfy its obligations in the arrangement.

(b) A month before the school year begins, the Government provides the enrollment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the Government recognizes a transfer right asset of CU59,400 (CU30 × 19,800 books × 10%):

Transfer right asset	CU59,400	
Cash		CU59,400

(c) Two weeks before the beginning of the school year, the Publisher has fully satisfied its obligations by transferring the textbooks to the Schools, and the Government's right to have the textbooks delivered has been extinguished. The Government derecognizes the transfer right asset of CU59,400 and records the amount as a transfer expense. In addition, the Government also recognizes a transfer obligation liability and a transfer expense for the unpaid consideration of CU534,600 (CU30 × 19,800 books – CU59,400 deposit) based on the terms of the binding arrangement:[9]

Transfer expense	CU594,000	
Transfer right asset		CU59,400
Transfer obligation liability		CU534,600

Example 8: Derecognition of a Transfer Right Asset Due to Non-Performance

IE42. The Ministry of Health (the Ministry) enters into a binding arrangement with a corporation that operates a number of private clinics in a region (the Corporation). Under the terms of the binding arrangement, the Ministry will provide an upfront payment of CU1 million to the Corporation for the Corporation to operate a vaccination program and administer 10,000 doses of a vaccine to the citizens in the region over the next 12 months. The Corporation is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

IE43. The binding arrangement specifies that if the Corporation stops administrating the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Corporation is required to pay CU100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Corporation has spent the funds on acquiring the vaccinations. (e.g., if the Corporation purchases 10,000 doses immediately upon receipt of the CU1 million, then only administers 5,000 doses and stops the vaccination program, it will be required to return CU500,000 to the Ministry even though the entire CU1 million has been spent.) However, the binding arrangement also specifies that the Corporation is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as war, terrorist attacks, or natural disasters.

Case A – The Corporation Decides to Stop the Vaccination Program

IE44. Upon paying the CU1 million, the Ministry recognizes a transfer right asset for the right to have the Corporation's clinics administer the 10,000 doses of the vaccine. Upon receipt of the CU1 million, the Corporation purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Corporation observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Corporation makes a business decision and informs the Ministry that it will stop administering the vaccines.

[9] It should be noted that IPSAS 48 does not prohibit the Government from using alternative descriptions in its financial statements for the terms 'transfer right asset', 'transfer obligation liability', or 'transfer expense'.

IE45. For the vaccines that have been administered, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies paragraph 26 of IPSAS 48 and:

(a) Derecognize the transfer right asset of CU950,000; and

(b) Recognize a receivable for CU950,000 (CU100 × 9,500 doses). The fact that the Corporation has already spent CU100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of IPSAS 41, *Financial Instruments*—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in IPSAS 41 and is no longer within the scope of IPSAS 48.

Case B – A Force Majeure Event Prevents the Administration of 10,000 Doses

IE46. Similar to Case A, upon paying the CU1 million, the Ministry recognizes the amount as a transfer right asset. In this scenario, the Corporation also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Corporation informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination program and administer the remaining 9,000 within 12 months.

IE47. Like Case A, the Ministry derecognizes CU50,000 of the transfer right asset and recognizes a transfer expense of CU50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed in the earthquake. In addition, the Corporation has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

IE48. Based on the fact pattern in this scenario, the Ministry applies paragraph 43 of IPSAS 48 and considers if the remaining transfer right asset of CU950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a transfer right to have the Corporation's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of CU50,000 in accordance with IPSAS 21 and reduces its transfer right asset to CU900,000.

Modifications to a Binding Arrangement

IE49. Example 9 illustrates the requirements in paragraphs 27-29 of IPSAS 48 on binding arrangement modifications. In addition, Case C of this example illustrates the requirements to estimate variable consideration in paragraphs 35-37 of IPSAS 48, as well as the requirements on changes in transfer consideration in paragraphs 40-42. Cases A, B, and C all build on the fact pattern outlined in paragraphs IE50-IE51 but are each independent from each other.

Example 9: Modifications to a Construction Arrangement

IE50. The Department of Housing (Housing, the transfer provider) enters into a binding arrangement with the Department of Public Works (Public Works, the transfer recipient) for Public Works to construct a residential building for a Housing Association (the Association, the third-party beneficiary) on land owned by the Association for promised consideration of CU1 million. In accordance with paragraph 25 of IPSAS 48 and based on the terms of the binding arrangement, Housing accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.

IE51. Housing determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, Housing assesses that Public Works has completed 60% of the building's construction

based on the surveyor's report. Consequently, the expenses recognized by Housing for the first year are CU600,000 (transfer consideration of CU1 million x 60%).

Case A – Modification Resulting in a Cumulative Catch-Up Adjustment to Expenses

IE52. In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the transfer consideration increases by CU150,000 and the total transfer consideration after the modification is CU1,150,000. In assessing the modification to the binding arrangement, Housing evaluates paragraph (a) of IPSAS 48 and concludes that the upcoming construction based on the revised floor plan remains a single transfer right rather than any additional transfer rights, because the modification does not result in the acceptance of additional distinct compliance obligations by Public Works or an increase in Public Works' existing compliance obligations.

IE53. Consequently, Housing accounts for the modification to a binding arrangement as if it were part of the original binding arrangement in accordance with paragraph 29 of IPSAS 48. Based on an updated quantity surveyor's report, Housing updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result, Housing recognizes additional expenses of CU9,500 [(53% complete × CU1,150,000 modified transaction consideration) – CU600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

Case B – Modification Resulting in a New Binding Arrangement

IE54. Continuing with the facts presented in paragraphs IE50-IE51, in the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of CU100,000 for the construction of a parking lot to be located next to the residential building.

IE55. Housing determines that this modification results in a separate binding arrangement because:

(a) The construction of the parking lot is a new transfer right, as Housing can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right as noted in paragraph AG32 of IPSAS 48; and

(b) The additional consideration of CU100,000 is intended to reflect the value of the additional transfer right by compensating Public Works for the construction of the parking lot.

IE56. As a result, Housing continues to account for the transfer relating to the construction of the residential building in the manner described in paragraphs IE50-IE51. The CU100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

Case C – Change in Transfer Consideration Due to the Resolution of Uncertain Events

IE57. Modifying the facts presented in paragraphs IE50-IE51, at the inception of the binding arrangement, Housing also agreed to pay a bonus of CU200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.

IE58. Completion of the building is highly susceptible to factors outside Public Works' influence, including weather conditions and regulatory approvals. In addition, Public Works has limited experience with similar types of binding arrangements. Based on these factors, Housing excluded the CU200,000 bonus from the transfer consideration at the inception of the binding arrangement.

IE59. At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely.

As a result, Housing concludes that payment of the bonus is now probable and adjusts the transfer consideration to CU1,200,000.

IE60. The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. Housing accounts for the probable payment of the bonus by applying paragraph 41 of IPSAS 48 and allocates the CU200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, Housing expenses an additional CU120,000 for the probable bonus payment as a cumulative catch-up adjustment ((CU1.2 million x 60%) – CU600,000 expense recognized to date).

Measurement

IE61. Example 10 expands upon the fact pattern from Case B of Example 5 to illustrate the allocation of transfer consideration to individual transfer rights.

Example 10: Allocation of Transfer Consideration

IE62. Continuing the fact pattern from Case B of Example 5, the regional government office (Regional Government) has concluded that it has four distinct transfer rights in its binding arrangement with the IT services agency (the Agency). As noted in paragraph IE34, these transfer rights relate to providing the University with productivity software, website-related services, security updates, and technical support services over a two-year period.

IE63. When the Regional Government began negotiations with the Agency, it observed that the Agency's published prices would have been as follows, had the software and services been purchased separately for the two-year period: CU6 million for the software, CU4 million for the website-related services, CU3 million for the security updates, and CU2 million for technical support. During negotiations, the Regional Government and the Agency used these published prices as a starting point then agreed to reduce the total consideration for all four deliverables from CU15 million to CU12 million.

Case A – Binding Arrangement Specifies Each Transfer Right's Stand-Alone Consideration

IE64. In this scenario, the binding arrangement specifies that the CU3 million reduction in transfer consideration resulted from a CU2 million discount for website-related services and a CU1 million discount for technical support.

IE65. Applying paragraph AG50, the Regional Government uses the amount of stand-alone consideration and the negotiated discount specified in the binding arrangement for each transfer right and allocates the transfer consideration as follows:

(a) Productivity software: CU6 million;

(b) Website-related services: CU2 million;

(c) Security updates: CU3 million; and

(d) Technical support: CU1 million.

Case B – Binding Arrangement Only Specifies the Total Transfer Consideration

IE66. In this scenario, the Regional Government and the Agency only agreed to the overall CU3 million discount for the entire bundle of the software and the various services, and the binding arrangement does not specify how the CU3 million is to be allocated.

IE67. Applying paragraph AG51, the Regional Government estimates the consideration allocated to each transfer right based on the amounts that were intended to compensate the Agency for the software and the services. As the Agency's published prices were used as the starting point for negotiations, the Regional Government

noted that these prices are appropriate proxies for the stand-alone consideration of the software and services. Therefore, one reasonable allocation approach is to proportionately allocate the CU12 million based on each deliverable's published prices.

IE68. Using this approach, the Regional Government allocates the transfer consideration as follows:

(a) Productivity software: CU4.8 million (CU6 million ÷ CU15 million × CU12 million);

(b) Website-related services: CU3.2 million (CU4 million ÷ CU15 million × CU12 million);

(c) Security updates: CU2.4 million (CU3 million ÷ CU15 million × CU12 million); and

(d) Technical support: CU1.6 million (CU2 million ÷ CU15 million × CU12 million).

Application of Principles to Specific Transactions

IE69. Example 11 illustrates the application of paragraphs AG53-AG55 of IPSAS 48 to capital transfers.

Example 11: Capital Transfers

Case A – Transfer Only Relates to the Construction of an Asset

IE70. Entity P enters into a binding arrangement with Entity R. The terms of the binding arrangement are as follows:

(a) Entity P is to provide funding in the form of CU22 million in cash to Entity R, to be used by Entity R to construct a building. There are no terms specifying how the building is to be used after construction;

(b) The amount of CU22 million is based on the budgeted construction and related costs. The funding is to be fully provided to Entity R at the beginning of the construction period;

(c) To facilitate Entity P's enforcement of the binding arrangement, the terms require Entity R to:

(i) Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities;

(ii) Provide detailed progress reports at each significant stage of construction; and

(d) Upon completion of construction, Entity R obtains control of the building. If construction of the building is not completed within five years, Entity R retains control of any construction in progress but any funds that have not been spent on construction are to be returned to Entity P.

IE71. Entity P has determined that the binding arrangement consists of one transfer right (for Entity R to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.

IE72. In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by Entity R. Therefore, upon payment of the CU22 million, Entity P recognizes a transfer right asset for the full amount of CU22 million as Entity R has not yet started construction of the building.

IE73. As Entity R completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Entity P applies this percentage to the CU22 million to determine the portion of the transfer right asset that should be derecognized and expensed throughout the construction period.

Case B – Transfer Relates to the Construction and Operation of an Asset

IE74. In this example, the binding arrangement states that:

(a) The funding amount has been increased to CU32 million. This amount is based on the budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building;

(b) Throughout the 10-year operating period, Entity R is required to provide evidence to Entity P that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by Entity R;

(c) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period. For example, if Entity R stops operating the building as a library at two years into the 10-year period, it is required to return CU8 million to Entity P; and

(d) Similar to Case A, Entity P transfers the entire CU32 million to Entity R at the beginning of the construction period. Entity R is also required to provide information regarding construction progress to Entity P.

IE75. In this scenario, Entity P concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building as a library for a 10-year period. Applying the requirements from IPSAS 48, Entity P has allocated CU22 million to the right for Entity R to construct the building and CU10 million to the right for Entity R to operate the building as a public library for 10 years.

IE76. For the transfer right relating to the construction of the building, as in Case A, Entity P recognizes a transfer right asset of CU22 million upon the transfer of funds. Entity P then derecognizes the CU22 million (and recognizes the amounts as transfer expenses) over the construction period, based on the construction progress as determined by information reported by Entity R.

IE77. For the transfer right relating to the operation of the building as a library, Entity P has determined that this transfer right is extinguished as the building is being operated by Entity R as a library during the 10-year period. Therefore, Entity P recognizes the entire CU10 million as a transfer right asset upon payment. After construction has been completed, as Entity R operates the building as a public library, Entity P derecognizes CU1 million of the transfer right asset per year over the 10-year period and recognizes the amount as a transfer expense.

Case C – Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset

IE78. In this scenario, the binding arrangement includes all the terms from Case B, with the addition of the following:

(a) The binding arrangement now imposes a penalty of CU5 million under specific conditions. If Entity R stops operating the building as a library within the 10-year period, it is required to pay a penalty to Entity P;

(b) The CU5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if Entity R has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay CU6 million (repayment of CU1 million of the operating subsidy plus the CU5 million penalty) to Entity P.

IE79. In this scenario, the accounting for the CU22 million and CU10 million portions of the transfer for construction and operation of the building as a library will be the same as Cases A and B. That is, Entity P will recognize the CU32 million as a transfer right asset upon the transfer of funds. Subsequently, the CU22 million will be

expensed as the building is constructed and the CU10 million will be expensed over the 10-year operating period.

IE80. The additional CU5 million penalty is not recognized by Entity P because its receipt is contingent on Entity R ceasing to operate the building as a public library. Such a contingent asset is not recognized in accordance with IPSAS 19.

Case D – Transfer Only Relates to the Operation of an Asset

IE81. The following scenario is independent from Cases A-C and illustrates the accounting for a transfer without a capital transfer component.

IE82. In this scenario:

(a) Entity R already owns the building;

(b) Under the terms of the binding arrangement, Entity P is required to transfer CU10 million to Entity R to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement;

(c) Throughout the 10-year period, Entity R is required to provide evidence to Entity R that the building has been operated as a public library; and

(d) If Entity R stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to Entity P based on the amount of time remaining in the 10-year period.

IE83. In this scenario, the CU10 million transfer only relates to the right to have Entity R operate the existing building as a public library over a 10-year period. Upon initial payment, Entity P recognizes the CU10 million as a transfer right asset.

IE84. Entity P has determined that the transfer right extinguishes as the building is being operated as a library by Entity R throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, Entity P derecognizes the transfer right asset evenly over the 10-year period and recognizes a transfer expense of CU1 million per year.

COMPARISON WITH GFS

In developing IPSAS 48, *Transfer Expenses*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- The similarities and differences between the accounting under IPSAS 48 and GFS will depend on the facts and circumstances of the transfer expense transactions.
- The definition of 'transfer expenses' in IPSAS 48 is drawn from the definition of 'transfers' in GFS but focuses on the perspective of the transfer provider.
- The accounting in IPSAS 48 is driven by the existence of a binding arrangement. In principle, the accounting in GFS is based on, among other considerations, the assessment of whether the transfer is compulsory or voluntary. Both IPSAS 48 and GFS may lead to the same accounting outcome in certain situations.
- IPSAS 48 distinguishes between transfer expenses arising from transactions with binding arrangements (including capital transfers) and transfer expenses from transactions without binding arrangements. GFS distinguishes grants as either current or capital grants, regardless of whether the grant arises from a binding arrangement, so different accounting outcomes could arise in certain situations.
- Under IPSAS 48, an entity recognizes a transfer expense when (or as) its enforceable right to have the transfer recipient satisfy its obligations is extinguished. Under GFS, the timing of expense recognition is based on the type of grant.

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IPSAS 49, *RETIREMENT BENEFIT PLANS*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS®) 26 *Accounting and Reporting by Retirement Benefit Plans*, published by the International Accounting Standards Board (IASB®). Extracts from IAS 26 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB®) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 49, *RETIREMENT BENEFIT PLANS*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 49, *Retirement Benefit Plans* was issued in November 2023.

Since then, IPSAS 49 has been amended by the following IPSAS *Accounting* Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)

Table of Amended Paragraphs in IPSAS 49

Paragraph Affected	How Affected	Affected By
26	Amended	IPSAS 33 November 2025

IPSAS 49, *RETIREMENT BENEFIT PLANS*

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International Public Sector Accounting Standard 49, *Retirement Benefit Plans*, is set out in paragraphs 1–27. All the paragraphs have equal authority. IPSAS 49 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans, which provide retirement benefits to public sector employees and other eligible participants.

Scope

2. **A retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard.**

3. Retirement benefit plans are sometimes referred to by various other names, such as ‘pension schemes’, ‘superannuation schemes’ or ‘retirement benefit schemes’. This Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan. All other Standards only apply to the financial statements to the extent that they are not superseded by the requirements in this Standard.

4. This Standard deals with accounting and reporting requirements for the plan for all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.

5. This Standard deals with retirement benefits for public sector employees and other participants who are eligible to join the plan. It does not deal with other forms of employment benefits, such as employment termination payments, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security arrangements are also excluded from the scope of this Standard.

6. Retirement benefit plans are normally described as either defined benefit plans or defined contribution plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. For the purposes of this Standard, defined benefit plans include hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. References in this Standard to defined benefit plans shall be read as encompassing hybrid plans.

7. Many retirement benefit plans require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.

8. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

   Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to participants attributable to service, as employees, already rendered.

   Defined benefit plans are, for the purposes of this Standard, retirement benefit plans other than defined contribution plans.

   Defined contribution obligations are the amounts owed to participants under the terms of a defined contribution plan.

Defined contribution plans are, for the purposes of this Standard, retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

Funding is the transfer of assets to an entity (the retirement benefit plan) separate from the employer/sponsor to meet future obligations for the payment of retirement benefits.

Net assets available for benefits are:

(a) **For defined benefit plans – the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits and, in a hybrid plan, the defined contribution obligation to participants; and**

(b) **For defined contribution plans – the assets of a plan less liabilities other than the defined contribution obligations to participants.**

Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

Retirement benefit obligations are:

(a) **For defined benefit plans – the actuarial present value of promised retirement benefits; and**

(b) **For defined contribution plans – the defined contribution obligations.**

Retirement benefit plans are arrangements whereby an employer/sponsor provides benefits for participants on or after termination of service as employee (either in the form of an annual income and/or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the employer's/sponsor's practices.

Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

Any other terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.

Recognition

10. **For defined benefit plans, retirement benefit obligations owed to participants shall be recognized in the statement of financial position as a provision for the actuarial present value of the promised retirement benefits.**

11. **For defined contribution plans, retirement benefit obligations owed to participants shall be recognized in the statement of financial position as defined contribution obligations.**

Measurement

Valuation of Plan Investments

12. **Retirement benefit plan investments shall be measured at fair value.**

Actuarial Present Value of Promised Retirement Benefits

13. The actuarial present value of promised retirement benefits for defined benefit plans shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels.

14. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent actuarial valuation, updated for any material transactions and material changes in circumstances shall be used.

Presentation and Disclosure

Presentation of Financial Statements

15. **A retirement benefit plan, whether defined benefit or defined contribution, shall present the following:**

    (a) **A statement of financial position;**

    (b) **A statement of changes in net assets available for benefits;**

    (c) **A cash flow statement; and**

    (d) **Notes to the financial statements.**

16. **A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:**

    (a) **Presenting a statement of changes in retirement benefit obligations; or**

    (b) **Disclosing in the notes to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.**

Financial Statement Content

Statement of Financial Position

17. **The face of the statement of financial position shall include line items that present the following amounts (if applicable and as appropriate, but not limited to):**

    (a) **Plan investments (suitably classified);**

    (b) **Contributions receivable;**

    (c) **Other assets;**

    (d) **Benefits due and payable;**

    (e) **Any other liabilities excluding retirement benefit obligations to participants;**

    (f) **Net assets available for benefits;**

    (g) **Provision for actuarial present value of promised retirement benefits in a defined benefit plan;**

    (h) **Defined contribution obligation to participants; and**

    (i) **Excess or deficit.**

Statement of Changes in Net Assets Available for Benefits

18. **The statement of changes in net assets available for benefits shall present opening and closing balances and include line items that present the following amounts, (if applicable and as appropriate, but not limited to):**

    (a) **Employer/sponsor contributions;**

    (b) **Participant contributions;**

    (c) **Investment income;**

    (d) **Other income;**

(e) **Benefits paid or payable (analyzed, for example, as retirement, death and disability benefits, or lump sum payments);**

(f) **Transfers from and to other plans;**

(g) **Administrative expenses;**

(h) **Other expenses; and**

(i) **Taxes on income.**

Cash Flow Statement

19. **A retirement benefit plan shall prepare a cash flow statement, using the direct method, in accordance with IPSAS 2, *Cash Flow Statements.***

Changes in Retirement Benefit Obligations

20. **Paragraph 16 requires a retirement benefit plan to present information that explains the changes in retirement benefit obligations to participants either as a financial statement or as a reconciliation in the notes to the financial statements.**

21. **This statement or note shall present opening and closing balances and the following information (if applicable and as appropriate, but not limited to):**

(a) **Amendments to the plan (e.g., changes in participant benefits);**

(b) **Changes in the nature of the plan (e.g., a merger with another plan);**

(c) **Participant benefits allocated to defined contribution participant accounts;**

(d) **Net changes to defined benefit participant accrued benefits (e.g., actuarial movements);**

(e) **Employer/sponsor contributions;**

(f) **Participant contributions;**

(g) **Taxes on contributions;**

(h) **Benefits paid; and**

(i) **Administration expenses.**

Disclosure

22. The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:

(a) A summary of significant accounting policies;

(b) A description of the plan (see paragraph 24) and the effect of any changes in the plan during the period;

(c) The basis for the valuation of all plan assets, including fair value measurement disclosure per class of plan assets as required by the applicable IPSAS;

(d) Details of any single investment exceeding either 5 percent of the net assets available for benefits or 5 percent of any class or type of security;

(e) Details of any investment in the employer/sponsor;

(f) Liabilities other than the provision for actuarial present value of promised retirement benefits or the defined contribution obligation to participants; and

(g) A description of the funding policy, including any obligations by the employer/sponsor to meet any actuarial determined shortfall in assets in a funded retirement benefit plan.

23. For defined benefit plans the following shall also be disclosed in the notes to the financial statements:

(a) The actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits;

(b) A description of the:

(i) Significant actuarial assumptions made; and

(ii) Method used to calculate the actuarial present value of promised retirement benefits;

(c) The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits; and

(d) The date of the actuarial valuation and when the next valuation will be undertaken.

24. A retirement benefit plan's financial statements shall contain a description of the plan. It shall contain the following:

(a) The name(s) of the employer(s)/sponsor(s) and the participant groups covered;

(b) The number of participants receiving benefits and the number of other participants, classified as appropriate;

(c) The type of plan – defined contribution or defined benefit;

(d) A note as to whether participants contribute to the plan;

(e) A description of the retirement benefits promised to participants;

(f) A description of any plan termination terms; and

(g) Changes in items (a) to (f) during the period covered by the financial statements.

Effective Date and Transition

Effective Date

25. **A retirement benefit plan shall apply this Standard for annual financial statements beginning on or after January 1, 2026. Earlier application is permitted. If a retirement benefit plan applies this Standard for a period beginning before January 1, 2026, it shall disclose that fact.**

26. When a retirement benefit plan adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First*-time *Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the retirement benefit plan's financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

27. This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 49.

Objective (see paragraph 1)

AG1. The objective of this Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans which provide retirement benefits primarily to public sector employees. Some public sector retirement benefit plans may also be open to participants working in the same field in the private sector (e.g., teachers in private sector schools) and are in the scope of this Standard. The aim is to improve the transparency and accountability of public sector retirement benefit plans, by providing information that is useful to users about a public sector retirement benefit plan's obligation in respect of participants' promised retirement benefits.

AG2. This Standard applies to retirement benefit plans established by public sector employers/sponsors to provide retirement benefits (either in the form of an annual income and/or lump sum) primarily to former employees. It does not apply to old-age pensions provided through welfare or social security programs, nor to social security schemes that provide pensions to all citizens.

AG3. The objective of reporting by a defined benefit plan is to provide information about the financial resources and activities of the plan that is useful in assessing the relationship between the accumulation of resources (where the defined benefit plan is funded) and plan benefits over time and, in particular, the extent of any deficits. This objective is usually achieved by providing financial statements that include the following:

(a) The recognition of the actuarial present value of promised retirement benefits (and for hybrid plans, the defined contribution obligation);

(b) Actuarial information about the retirement benefit obligations, including the measurement basis;

(c) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(d) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;

(e) A description of the investment policies; and

(f) How a pay-as-you-go[1] retirement benefit plan obligation is funded.

AG4. The objective of reporting by a defined contribution plan is to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements that include the following:

(a) The recognition of the defined contribution obligation;

(b) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(c) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and

[1] Many public pension systems operate on a pay-as-you-go basis. This means that pensions paid to current pensioners are typically financed from general taxation and from contributions paid by current participants or sponsors during the same period in which pensions are paid.

(d) A description of the investment policies.

AG5. Given the prevalence and significance of retirement benefit scheme obligations primarily to current and former employees, to achieve the objective of improved transparency and accountability, this Standard requires retirement benefit plans to present, on the face of the statement of financial position as obligations, the estimated present value of promised retirement benefits based on the type of plan, with defined benefit plan obligations and defined contribution plan obligations presented differently.

Scope (see paragraphs 2–8)

AG6. A retirement benefit plan is a reporting entity. That is, it reports separately from the employer of the participants in the plan and separately from the entity that administers the plan (which may be the employer or an outsourced service provider). For example, where an entity administers more than one separate retirement benefit plan, this Standard applies to each of those plans and requires financial statements to be prepared for each retirement benefit plan.

AG7. Retirement benefit plans can also be classified as single employer, multi-employer[2], or state plans[3]. That classification may have an impact on the application of IPSAS 39, *Employee Benefits*, but does not alter the application of this Standard.

AG8. Many public sector entities provide retirement benefits for their employees by way of a multi-employer plan or state plan. Multi-employer plans and state plans are defined in IPSAS 39. Multi-employer plans and state plans can be either defined benefit plans or defined contribution plans. However, for entities providing defined benefit pensions for employees using either a multi-employer or state plan, IPSAS 39 allows entities to use defined contribution accounting if there is insufficient information to use defined benefit accounting. This has the potential to underestimate the obligation owed to employees when that entity applies IPSAS 39. Therefore, the full obligation may not be reported in the employer's financial statements.

AG9. Some retirement benefit plans have sponsors other than employers; this Standard also applies to the financial statements of such plans.

AG10. Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired obligations as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.

AG11. Some retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this Standard to describe such parties regardless of whether a trust has been formed. Many public sector retirement benefit plans are unfunded, operating on a pay-as-you-go basis whereby benefits are payable from general taxation.

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[2] Multi-employer plans are defined in IPSAS 39 as defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) Pool the assets contributed by various entities that are not under common control; and

(b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

[3] State plans are defined in IPSAS 39 as plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

Definitions (see paragraph 9)

AG12. For the purposes of this Standard, defined benefit plans are those plans which do not meet the definition of a defined contribution plan. This includes hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. A defined benefit plan is a retirement benefit plan under which amounts to be paid as retirement benefits are typically determined by reference to a formula usually based on participants' earnings and/or years of service. The extent of the obligation for future retirement benefits is determined by the measurement of the promised retirement benefits and not by the level of contributions. Defined benefit plans might be funded, through plan investments, and where a shortfall arises, the employer/sponsor has a legal or constructive obligation to provide for the additional promised benefits. For unfunded plans, such as those established on a pay-as-you-go basis, all benefits payable will be financed from, for example, general taxation.

AG13. A defined benefit plan usually needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels by employers/sponsors. Because the employer/sponsor is obligated to provide for any shortfall of retirement benefits over plan investments based on these assumptions, any investment risk typically falls on the employer/sponsor.

AG14. The retirement benefit plan accounts for its defined benefit obligation at the present value of the payments expected to settle promised retirement benefits, which it bases on the calculations performed periodically by an actuary. The retirement benefit plan accounts for the plan assets (if any) separately.

AG15. Defined contribution plans differ from defined benefit plans in that the amounts to be paid as retirement benefits are determined by the amount of contributions to a participant's plan together with investment earnings. The extent of the obligation for future retirement benefits is, therefore, capped by the size of the fund at the reporting date.

AG16. Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer/sponsor, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's/sponsor's obligation is usually discharged by contributions to the fund. Therefore, any investment risk typically falls on the participant. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.

Recognition (see paragraphs 10 and 11)

AG17. This Standard requires the obligations to participants to be recognized and presented on the face of the statement of financial position. In a defined benefit plan, the obligation is a provision (a liability of uncertain timing or amount) called "the actuarial present value of promised retirement benefits"; it will generally be calculated by an actuary in accordance with the rules of the plan (e.g., qualifying service and salary) using actuarial assumptions. A hybrid plan will also have defined contribution obligations (see paragraphs 11 and AG18). The responsibility for making good any deficit between the value of any plan assets and the promised retirement benefit obligations may lie with the employer/sponsor of the plan, or with the appropriate level of government, or, in a shared funding arrangement, one or more of the employers/sponsors, depending on the rules of the retirement benefit plan and/or legislation.

AG18. In a defined contribution plan, the amount to be recognized for obligations to participants equate to the net assets less, if required by the rules of the plan or other regulations, any retention for specified purposes (e.g., investment risks).

Measurement (see paragraphs 12–14)

Valuation of Plan Investments

AG19. The term ‘plan assets’ is an overarching term for all assets of the retirement benefit plan. Plan investments are a subset of plan assets and are those assets that are required specifically for their investment potential to fund payment of retirement benefit obligations.

AG20. This Standard requires all plan investments to be measured at fair value. Any plan investments that are financial instruments shall be measured at fair value in accordance with IPSAS 41, *Financial Instruments.* Other plan investments shall be measured at fair value in accordance with the applicable IPSAS (e.g., IPSAS 16, *Investment Property*). Other plan assets shall be measured in accordance with the applicable IPSAS.

Actuarial Present Value of Promised Retirement Benefits

AG21. The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. This obligation reflects the expectation of future benefits determined using actuarial methods, and projected salaries are used because benefits are measured in the future against salaries applicable at the point the benefits become due.

AG22. Actuarial valuations are not always obtained annually; some retirement benefit plan regulations might require actuarial valuations every three or five years, for example. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is likely to be suitable as a starting point for the current year’s valuation. This requires the most recent actuarial valuation to be updated for any material transactions and other material changes in circumstances (including changes in market prices, interest rates, and expected inflation rate of projected salaries) up to the end of the reporting period.

AG23. Because a retirement benefit plan may have different risks and assumptions when compared to the employer/sponsor, an actuarial valuation may result in different valuations of the same defined benefit obligations for the retirement benefit plan and for the employer/sponsor. For example, the discount rate applied by the employer/sponsor may differ from that of the retirement benefit plan as a result of different risks related to the employer/sponsor compared to the plan. When the actuarial valuation performed for the employer/sponsor is used as a base, any necessary adjustments shall be made for determining the obligation of the retirement benefit plan.

Applicability of Other IPSAS

AG24. Unless specifically overwritten by this Standard, all other IPSAS apply to the financial statements of retirement benefit plans when applicable. For example, if a retirement benefit plan is required or elects to make their approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* shall also apply.

Presentation and Disclosure (see paragraphs 15–24)

Presentation of Financial Statements

AG25. This Standard overrides the requirements of IPSAS 1, *Presentation of Financial Statements* by setting out in paragraphs 15 and 16 which financial statements a retirement benefit plan shall present.

Statement of Financial Position

AG26. Plan investments are to be shown on the face of the statement of financial position and suitably classified. This requires grouping assets of a similar nature – for example, as equities, fixed income securities, and investment funds.

AG27. The statement of financial position is required to present the actuarial present value of promised retirement benefits and defined contribution obligation to plan participants below net assets available for benefits. Inclusion of this obligation(s) addresses the principal objective of this Standard to increase the transparency and accountability about retirement benefit plan obligations of public sector entities to participants.

AG28. This line item differs from the presentation of liabilities for benefits due and payable to participants (if applicable). Liabilities for benefits due and payable to participants are shown above the net assets available for benefits and only include those amounts that are immediately payable. For example, it may represent a monthly defined benefit pension payment yet to be paid or a withdrawal from a defined contribution plan requested by the participant that is yet to be paid.

Statement of Changes in Net Assets Available for Benefits

AG29. The line items shown in the statement of changes in net assets available for benefits are only those that are directly attributable to the plan. The nature of those items will largely depend on the terms of a plan. For example, some retirement benefit plans may specify that some administrative costs (such as the salaries of plan's investment managers) are paid out of investment income.

Statement of Changes in Retirement Benefit Obligations or Disclosure of Reconciliation Between the Opening and Closing Retirement Benefit Obligation Balances

AG30. The structure of a retirement benefit plan – such as whether it is a defined benefit plan or defined contribution plan and whether it is funded or pay-as-you-go – may determine how contributions and benefits are accounted for.

AG31. Some retirement benefit plans account for contributions and benefits as revenue and expenses respectively, while others account for contributions and benefits as changes in liabilities to participants. In some cases, the structure of retirement benefit plans might mean that a mixed approach is taken to accounting for contributions and benefits. Depending on the circumstances, the line items for contributions and benefits paid may need to be shown differently on the face of the statement of changes in retirement benefit obligations (see the Illustrative Examples) or in the disclosure of the reconciliation between the opening and closing retirement benefit obligation balances.

Cash Flow Statement

AG32. When preparing the cash flow statement, a retirement benefit plan shall consider the requirements and guidance in IPSAS 2, *Cash Flow Statements.* This Standard requires cash flows to be reported using the direct method, because the structure of the other financial statements makes it unlikely that an annual surplus or deficit will be reported, making the indirect method impracticable.

AG33. Individual retirement benefit plans may treat certain transactions differently. For example, contributions may be revenue or a liability to the participant, depending on the terms of the retirement benefit plan. Therefore, the classification of transactions as operating, investing, or financing cash flows may differ between retirement benefit plans. However, the classification adopted shall be applied consistently by a retirement benefit plan.

Disclosure

AG34. This Standard requires retirement benefit plans to provide a description of the funding policy. This description shall include information about how a retirement benefit plan intends to fund the payment of promised benefits, including the management of any funding deficit which may exist at the reporting date.

AG35. Information about how a plan intends to fund benefit payments may provide useful information to some users about the maturity of the retirement benefit plan. Participants are interested in the activities of the plan since they directly affect the level of their future benefits. Participants are interested in knowing whether

contributions have been received and proper control has been exercised to protect their rights. An employer/sponsor is interested in the efficient and fair operation of the plan.

AG36. Information provided in disclosures shall also reveal whether a retirement benefit plan is sufficiently funded. If the retirement benefit plan is unfunded or in deficit, the description of the funding policy shall provide information about how amounts due for promised retirement benefits will be satisfied – for example, by participant contributions or by funds from a central government.

Effective Date and Transition (see paragraphs 25–27)

AG37. This Standard shall be applied prospectively. However, when a retirement benefit plan that has used another international or national accounting standard dealing with retirement benefit plans first applies this Standard, it shall provide restated comparative financial statements in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Appendix B

Amendments to Other IPSAS

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 49.

Objective (see paragraph 1)

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 49, *Retirement Benefit Plans*. This Standard is adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* issued by the International Accounting Standards Board (IASB). This Basis for Conclusions outlines those areas where the IPSASB decided to propose requirements for retirement benefit plans in the public sector that differ from those set out in IAS 26.

Background

BC2. The IPSASB's *Strategy and Work Plan 2019-2023* identified a project to develop an IPSAS aligned with IAS 26 as part of Theme B – 'Maintaining alignment with IFRS' which then led to the development of this Standard. The IPSASB approved the Project Brief for this Standard at its March 2021 meeting.

BC3. Multi-employer plans and state plans are common in the public sector. Because IPSAS 39, *Employee Benefits* allows employers contributing to these types of plans to report on a defined contribution basis, even if they are a defined benefit plan, the IPSASB was of the view that there may be a lack of transparent reporting of these plans' obligations for retirement benefits. The IPSASB noted that, while IPSAS 39 was aligned with IAS 19, *Employee Benefits*, there was no IPSAS equivalent to IAS 26.

BC4. IAS 26 was issued in January 1987 and its objective is to provide the accounting and reporting requirements for arrangements through which an entity provides retirement benefits (for example, an annual income) to employees after they terminate from service. Prior to the issuance of this Standard there were no corresponding requirements in IPSAS for the accounting by retirement benefit plans.

BC5. Therefore, the IPSASB considered it was important to develop a Standard which would require retirement benefit plans to provide a more complete view of the public sector retirement benefit obligation for accountability purposes. Further, because governments are often responsible for funding the deficits of defined benefit plans, this information also supports governments in making fiscal decisions about whether continuing to provide defined benefit pensions (in particular) is sustainable; making such decisions is challenging without easy access to the expected cost of providing retirement benefits in the form of an obligation on the plan's statement of financial position. The IPSASB noted that this Standard complements the requirements in IPSAS 39, and therefore provides the desired information on public sector retirement benefit obligations for each retirement benefit plan that reports under this Standard.

BC6. The IPSASB discussed whether relevant entities should consolidate a retirement benefit plan into a greater economic entity, based on the concepts in IPSAS 35, *Consolidated Financial Statements.* The IPSASB concluded that where the greater economic entity does not control the retirement benefit plan, consolidation under IPSAS 35 is not appropriate. When consolidation is not appropriate, the IPSASB confirmed the principles in IPSAS 39 provide the appropriate information about the totality of public sector retirement benefit obligations in the greater economic entity.

BC7. When discussing the Project Brief, the IPSASB noted that the age of IAS 26 means it is out of step with some of the developments in financial reporting since 1987. The IPSASB concluded that it was likely that some of the options available in IAS 26 would be inappropriate for public sector financial reporting and decided to proceed on the basis that the project would be an adaptation project rather than an alignment project.

BC8. The IPSASB also considered whether the title of this Standard should differ from IAS 26 and decided that the title should be shortened to *Retirement Benefit Plans*.

Scope (see paragraphs 2–8)

BC9. Respondents to Exposure Draft 82, *Retirement Benefit Plans* proposed better aligning the requirements of IPSAS 49 with the requirements in other IPSAS. For example, some respondents suggested aligning the definitions and requirements of IPSAS 49 with those in IPSAS 39, arguing that aligning definitions and requirements would better ensure that key measurements such as the actuarial present value of promised retirement benefits would be consistent and enable balances presented under IPSAS 49 to be consolidated into the employer/sponsor's financial statements when applying IPSAS 35.

BC10. The IPSASB concluded alignment between IPSAS 49 and IPSAS 39 was not necessary for the following reasons:

- Financial information presented using IPSAS 49 provides different information and satisfies different user needs than financial information presented using IPSAS 39. The primary users of financial information provided by IPSAS 49 are participants of the plan. They require information that supports their ability to understand if the retirement benefit plan can fund their retirement. The primary users of the financial information provided by IPSAS 39 are users of the financial information of the employer/sponsor. The financial information provided by IPSAS 39 makes up only a portion in the broader set of the employer's/sponsor's financial statements. These users are concerned with the employer's/sponsor's liability to fund the plan and require the ability to compare that retirement benefit liability with similar entities. The IPSASB concluded different user needs warrant the need for different measurements.
- The requirements of what an employer/sponsor shall include in its financial statements related to a retirement benefit plan are stated in IPSAS 39. IPSAS 49 provides guidance on how to present and measure this balance in a set of financial statements for the retirement benefit plan. Since the retirement benefit liability is already presented in the financial statements of the employer/sponsor, the IPSASB concluded an employer/sponsor is not expected to apply the requirements of this Standard as any pension obligations are captured in its financial statements when applying the requirements of IPSAS 39.

BC11. The IPSASB also discussed whether the scope of this Standard should be expanded to include benefit plans that have similar characteristics to retirement benefit plans but provide benefits more generally to meet societal needs other than solely retirement benefits to public sector employees and other participants who are eligible to join the plan (see paragraph 5 of this Standard). The IPSASB decided to retain the scope of IAS 26 because the primary purpose of the Standard is to provide guidance for accounting and reporting by retirement benefit plans in the public sector. The IPSASB noted that, for plans that have characteristics similar to retirement benefit plans, application of relevant parts of this Standard by analogy could be appropriate under paragraphs 12-15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Other schemes may have characteristics that make application of relevant parts of IPSAS 39 or IPSAS 42, *Social Benefits* appropriate.

BC12. The IPSASB also agreed that the retirement benefit plan is the reporting entity; this is consistent with IAS 26. Therefore, entities that administer multiple retirement benefit plans must prepare financial statements for each individual plan.

Definitions (see paragraph 9)

BC13. The IPSASB noted that 'defined benefit plans' and 'defined contribution plans' are already defined in IPSAS 39, *Employee Benefits* but with different definitions to those in IAS 26 and discussed whether the IPSAS 39 definitions should be used in this Standard. The IPSASB decided that the IPSAS 39 definitions were not appropriate because they were written from the perspective of an employer contributing to a

retirement benefit plan, whereas the IAS 26 definitions are written from a retirement benefit plan's perspective.

BC14. The IPSASB decided to retain the IAS 26 definition for 'defined contribution plans', with additional guidance noting that for a defined contribution plan it is the participants in the plan who bear the principal investment risk.

BC15. The IPSASB did, however, decide to amend the IAS 26 definition for 'defined benefit plans' from:

"Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on participants' earnings and/or years of service"; to

"Defined benefit plans are retirement benefit plans other than defined contribution plans".

BC16. The IPSASB made this change to ensure that all retirement benefit plans that did not meet the definition of a defined contribution plan would be accounted for as a defined benefit plan. It was also decided to include Application Guidance to help distinguish between a defined benefit plan and a defined contribution plan. For example, the guidance indicates that for a defined benefit plan it is the employer/sponsor that bears the principal investment risk.

BC17. The IPSASB considered whether the IAS 26 definition for the 'actuarial present value of promised retirement benefits' should be replaced with the IPSAS 39 definition for the 'present value of defined benefit obligations'. The IPSASB noted that the definitions were written from different perspectives and that the plan perspective is appropriate in this Standard, even if the different perspectives may result in different valuations for fundamentally the same obligation (refer to BC18 below). Therefore, it was decided to retain the IAS 26 definition.

Recognition (see paragraphs 10–11)

BC18. The IPSASB noted that IAS 26 provides three options for defined benefit plans to present information on the actuarial present value of promised retirement benefits: recognition on the face of the financial statements, presentation in the notes to the financial statements, or by reference to an accompanying actuarial report. The IPSASB considers that the actuarial present value of promised retirement benefits is key information and decided that this information shall be recognized on the face of the statement of financial position as a separate provision. The IAS 26 options permitting only disclosure of this information in notes to the financial statements, or in a separate actuarial report, are therefore not included in this IPSAS.

BC19. The IPSASB also noted that IAS 26 is silent on whether or where retirement benefit obligations for defined contribution plans should be recognized and presented in the financial statements of a retirement benefit plan. To improve the accountability and transparency of such plans, the IPSASB decided that defined contribution obligations owed to participants under the terms of the plan shall also be recognized and presented on the face of the statement of financial position. In contrast, the employer's/sponsor's financial statements should not present an obligation related to contributions when there is no liability for unpaid contributions. There are differing views on the precise nature of defined contribution obligations; are they liabilities of uncertain timing and/or amount (and thus be accounted for as provisions); potential distribution to owners; or are they akin to stakeholder' equity? The IPSASB is of the view that the nature of defined contribution obligations may be linked to the design of the defined contribution plans and decided, therefore, not to describe them as any particular element of financial statements.

Measurement (see paragraphs 12–14)

Valuation of Plan Investments

BC20. IAS 26 requires plan investments to be measured at fair value. However, the IPSASB noted that IAS 26 seems to allow plan investments to be measured at another value if an estimate of fair value is not possible.

The IPSASB agreed that fair value measurement guidance in other IPSAS is sufficient and decided that plan investments shall be measured at fair value using the guidance in other IPSAS as relevant to the type of plan investments.

Actuarial Present Value of Promised Retirement Benefits

BC21. The IPSASB noted that IAS 26 allows the actuarial present value of promised retirement benefits to be measured using either current salaries or projected salaries. The IPSASB discussed whether it was appropriate to keep both options in this Standard. The IPSASB decided that the option to use current salaries should be removed from this Standard because it has the potential to understate the actuarial present value of promised retirement benefits. Plan participants are interested in the sustainability of the retirement benefit plan and therefore require a best estimate of the present value of future obligations using projected salaries. It was also noted that using projected salaries is consistent with IPSAS 39, under which the present value of a defined benefit obligation is required to be measured using projected salaries. Further, using projected salaries is consistent with the objective of this Standard to increase the transparency and accountability of retirement benefit plans for retirement benefit obligations owing to participants. The IPSASB noted that the benefit of providing an estimate based on projected salaries would outweigh any cost implication to the retirement benefit plan.

BC22. The IPSASB considered including a practical expedient whereby, under certain circumstances, the trustees of a retirement benefit plan could use the employer's/sponsor's actuarial valuation to measure the actuarial valuation of promised retirement benefits for the purposes of this Standard. The IPSASB noted the use of such a practical expedient in some jurisdictions, but also noted that in other jurisdictions regulatory requirements may result in a different measurement for the same obligation, due to, amongst others, the different discount rates applied by actuaries and the impact of collective versus individual participant valuation, especially prevalent in multi-employer plans. The IPSASB is also of the view that if the trustees of a retirement benefit plan considered the IPSAS 39 measurement was appropriate for retirement benefit plan purposes, e.g., there are no material differences in approach, assumptions, or discount rates applied by actuaries, they may use it without needing a practical expedient in this Standard. Therefore, it was decided not to include such a practical expedient.

Classification of Contributions and Benefits

BC23. The IPSASB discussed whether contributions and benefits should be classified as any particular element as defined in the Conceptual Framework. The IPSASB noted that in some jurisdictions contributions are considered to be revenue whereas other jurisdictions are of the view that contributions give rise to an obligation. Similarly, benefits may be considered expenses or a reduction in that obligation depending on the jurisdiction.

BC24. The IPSASB decided that classifying contributions and benefits is dependent on the structure and regulations of a particular retirement benefit plan. The IPSASB acknowledged that there are many different types of retirement benefit plans, and each will have its own nuances regarding structure and regulations. Therefore, because this Standard applies to all types of plans, the IPSASB decided not to classify contributions and benefits as particular elements but instead to leave the classification in financial statements to the judgement of preparers with knowledge of the plan structure and regulations.

Presentation of Financial Statements (see paragraphs 15–21)

BC25. The IPSASB noted that IAS 26 is not definitive about which financial statements a retirement benefit plan should present and decided that this Standard would specify which financial statements are required.

BC26. The IPSASB noted that users of a retirement benefit plan's financial statements are mostly interested in a statement which shows a reconciliation of the opening and closing balances of the net assets available for

benefits, which shows the inflows and outflows of the retirement benefit plan and decided that a statement of financial performance would not be required. A reconciliation of the annual performance of the retirement benefit plan is presented in the statement of changes in net assets available for benefits, which does bear some resemblance to a statement of financial performance but should not be considered as such.

BC27. The IPSASB noted that it was unclear whether IAS 26 required a retirement benefit plan to present a cash flow statement. The IPSASB was of the view that retirement benefit plans should include a cash flow statement because it provides important information for users. Therefore, the IPSASB decided that this Standard would specify that a retirement benefit plan shall present a cash flow statement. The cash flow statement shall be prepared using the direct method according to IPSAS 2, *Cash flow Statements*, because this Standard does not require a statement of financial performance. Therefore, it is not suitable to prepare a cash flow statement using the indirect method, because there is no surplus or deficit to adjust for non-cash items to derive net cash flows from operating activities.

Disclosure (see paragraphs 22–24)

BC28. The IPSASB reviewed the IAS 26 disclosure on the valuation of plan assets in, and the funding of, a retirement benefit plan, and agreed with respondents that more information would be useful to the decision-making needs of users of the financial statements, Therefore, the IPSASB agreed to expand the disclosure requirements in the notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, reflected in paragraph 22, as follows:

> "(c) The basis for the valuation of all plan assets, including fair value measurement disclosure per class of plan assets as required by the applicable IPSAS"; and
>
> "(g) A description of the funding policy, including any obligations by the employer/sponsor to meet any actuarial determined shortfall in assets in a funded retirement benefit plan".

BC29. The IPSASB further agreed to enhance the application guidance in AG36 regarding the inclusion of disclosure on the funding policy of the retirement benefit plan by referring, for example, to the contributions expected from participants, central government, or another entity.

Effective Date and Transition (see paragraphs 25–27)

BC30. The IPSASB considered that the key information in the General Purpose Financial Statements of a retirement benefit plan comprises the obligation of future benefits, the extent of any deficit, and the change in those figures over the reporting period. The IPSASB concluded that requiring the application of the guidance on the prospective basis would best serve the needs of users of retirement benefit plan information because it enables the retirement benefit plan to provide the information sooner than if retrospective application were required. Prospective application will require a retirement benefit plan to prepare an opening and closing Statement of Financial Position, and other Statements only for the year of adoption. This more quickly achieves one of the project objectives, which was to provide users with a more accurate view of the retirement benefit obligations of public sector entities. Retrospective application would require additional historical information and the key information would not be available as quickly as under prospective application.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 49.

Factors to consider in determining whether contributions and benefits are revenue and expenses or liabilities and a reduction in liabilities.

Q: How do preparers determine the accounting treatment of contribution and benefits?

A: There may be many different retirement benefit plan structures and frameworks even within the same jurisdiction, as well as across jurisdictions. In order to determine the economic substance of the arrangements in each plan, and therefore the most appropriate accounting treatment, the preparers of the retirement benefit plan financial statements should exercise professional judgment in making this determination and consider the following factors:

(a) Characteristics of the plan;

(b) Structure of the plan;

(c) Regulatory environment;

(d) Legislative environment;

(e) Purpose of the contributions;

(f) Types of benefits provided; and

(g) The type of other expenses borne by the plan.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 49.

The following illustrative examples (IE) provide examples of styles and formats for retirement benefit plans to present financial statements that are consistent with IPSAS 49. These IEs are not comprehensive nor mandatory. Other styles and formats are acceptable if they meet the requirements of this IPSAS.

These IEs show three potential ways in which the required financial statements can be presented, depending on the judgment made about how to present contributions and benefits. The different line items in the IEs are illustrative.

IE 1 relates to a *defined benefit plan* where the contributions and benefits are treated as revenue and expenses and all cash flows are treated as operating cash flows.

IE 2 relates to a *defined benefit plan* where the contributions are treated as a liability and the benefits as a reduction in that liability. Regarding cash flows, returns on investments, administrative payments, investment payments, and taxes paid on investment income are operating cash flows. Purchases and sales of plan investments are investing activities. Contributions and benefits, transfers to and from other plans, and income tax on contributions are financing activities.

IE 3 relates to a *defined contribution plan* where the contributions and benefits are treated as revenue and expenses. Regarding cash flows, return on investments, administrative payments, contributions received, benefits paid (and associated receipts and payments), and income taxes are operating activities. Purchases and sales of plan investments are investing activities.

Statement of financial position **As at December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Assets			
Cash and cash equivalents	X	X	X
Plan investments (suitably classified)	X	X	X
Accrued interest and dividends receivable	X	X	X
Contributions receivable	X	X	X
Other assets	X	X	X
Total Assets	**X**	**X**	**X**

Statement of financial position **As at December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Liabilities			
Payables	X	X	X
Benefits due and payable	X	X	X
Income tax payable	X	X	X
Other liabilities	X	X	X
Total liabilities excluding benefit obligations to participants	**X**	**X**	**X**
Net assets available for retirement benefits	**X**	**X**	**X**
Provision for the actuarial present value of promised retirement benefits	**X**	**X**	**N/A**
Defined contribution obligation	**N/A[4]**	**N/A[5]**	**X**
Other reserves	X	X	X
Excess or deficit of funding	**X**	**X**	**X**

[4] If this was a hybrid plan there would also be an amount for defined contribution obligations

[5] As for footnote 4

Statement of changes in net assets available for benefits **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Net assets available for benefits (beginning of the year)	**X**	**X**	**X**
Investment earnings			
Net change in fair value of plan investments	X	X	X
Interest revenue	X	X	X
Investment revenue	X	X	X
Dividend revenue	X	X	X
Other revenue	X	X	X
	X	**X**	**X**
Contributions			
Employer	X	X	X
Participant	X	X	X
Benefits accrued	X	X	N/A
Funding from sponsor[6]	X	X	X
Total increase in net assets available for benefits	**X**	**X**	**X**
Benefits paid	X	X	X
Investment related expenses	X	X	X
Operational and administrative expenses	X	X	X
Other expenses	X	X	X
Tax on income	X	X	X
Total decrease in net assets available for benefits	**X**	**X**	**X**
Transfers to and from other plans	X	X	X
Net increase/decrease in assets available for benefits	**X**	**X**	**X**
Net assets available for benefits (end of the year)	**X**	**X**	**X**

[6] This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

Statement of changes in retirement benefit obligations **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Retirement benefit obligations (beginning of the year)	**X**	**X**	**X**
Contributions			
Employer	N/A	X	X
Participant	N/A	X	X
Funding from sponsor	N/A	X	X
Transfers from other plans	X	X	X
Changes in actuarial assumptions	X	X	N/A
Benefits accrued	X	X	N/A
Total increase in retirement benefit obligations	**X**	**X**	**X**
Benefits paid	X	X	X
Transfers to other plans	X	X	X
Tax on contributions	N/A	X	X
Total decrease in retirement benefit obligations	**X**	**X**	**X**
Retirement benefit obligations (end of the year)	**X**	**X**	**X**

NOTE: As an alternative to the statement of changes in retirement benefit obligations, this information can be provided in the notes to the financial statements.

Cash flow statement **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Cash flows from operating activities			
Receipts			
Sale of plan investment	X	N/A	N/A
Interest received	X	X	X
Dividends received	X	X	X
Other receipts	X	X	X
Employer contributions received	X	N/A	X
Participant contributions received	X	N/A	X
Funding received from sponsor[7]	X	N/A	X
Payments			
Purchase of plan investments	X	N/A	N/A
Investment related payments	X	X	N/A
Participant benefits paid	X	N/A	X
Operational and administrative payments	X	X	X
Other payments	X	X	X
Tax paid on contributions	X	N/A	X
Tax paid on investments	X	X	X
Transfers to and from other plans	X	N/A	N/A
Net cash inflows (outflows) from operating activities	**X**	**X**	**X**
Cash flows from investing activities			
Purchase of plan investments	N/A	(X)	(X)
Sale of plan investment	N/A	X	X
Investment related expenses	N/A	N/A	X
Transfers to and from other plans	N/A	N/A	X
Net cash inflows (outflows) from investing activities	**N/A**	**X**	**X**

[7] This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

Cash flow statement **For the year ended December 31, 20XY** (in thousands of currency units)	**IE1** **(DB)**	**IE2** **(DB)**	**IE3** **(DC)**
Cash flows from financing activities			
Employer contributions received	N/A	X	N/A
Participant contributions received	N/A	X	N/A
Funding received from sponsor[8]	N/A	X	N/A
Participant benefits paid	N/A	X	N/A
Transfers to and from other plans	N/A	X	N/A
Tax paid on contributions	N/A	(X)	N/A
Net cash inflows (outflows) from financing activities	**N/A**	**X**	**N/A**
Net increase (decrease) in cash and cash equivalents	**X**	**X**	**X**
Cash and cash equivalents at the beginning of the year	X	X	X
Cash and cash equivalents at the end of the year	**X**	**X**	**X**

[8] This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

COMPARISON WITH IAS 26

IPSAS 49, *Retirement Benefit Plans* is drawn from IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, including amendments up to February 2021.

The main differences between IPSAS 49 and IAS 26 are as follows:

- IPSAS 49 has different definitions, such as defined benefit plans and net assets available for benefits;
- IPSAS 49 requires the use of projected salaries only when measuring the actuarial present value of promised retirement benefits, while IAS 26 permits a choice of using current salary levels or projected salary levels; and
- IPSAS 49 requires the presentation of a cash flow statement for retirement benefit plans, while IAS 26 does not.

COMPARISON WITH GFS

In developing IPSAS 49, *Retirement Benefit Plans*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities with GFS are as follows:

- IPSAS 49 permits contributions to the retirement benefit plans to be accounted for as either revenue or a liability to the participant, depending on the terms of the plan, and GFS also permits this depending on the type of scheme.
- IPSAS 49 requires retirement benefit obligations to be recognized in the statement of financial position. Similarly, GFS also requires pension entitlements to be presented on the balance sheet.

IPSAS 50, *EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES*

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard (IFRS®) 6 *Exploration for and Evaluation of Mineral Resources*, published by the International Accounting Standards Board (IASB®). Extracts from IFRS 6 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB®) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSAS 50, *EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 50, *Exploration for and Evaluation of Mineral Resources* was issued in November 2024.

Since then, IPSAS 50 has been amended by the following IPSAS *Accounting* Standards:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)

Table of Amended Paragraphs in IPSAS 50

Paragraph Affected	How Affected	Affected By
28	Amended	IPSAS 33 November 2025

IPSAS 50, *EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES*

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International Public Sector Accounting Standard 50, *Exploration for and Evaluation of Mineral Resources*, is set out in paragraphs 1–29. All the paragraphs have equal authority. IPSAS 50 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources.

2. In particular, the Standard requires:

   (a) Limited improvements to existing accounting practices for exploration and evaluation expenditures.

   (b) Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26, *Impairment of Cash-Generating Assets*.

   (c) Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to exploration and evaluation expenditures that it incurs.

4. This Standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

5. An entity shall not apply this Standard to expenditures incurred:

   (a) Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

   (b) After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

   Exploration and evaluation assets means exploration and evaluation expenditures recognized as assets in accordance with the entity's accounting policy.

   Exploration and evaluation expenditures means expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

   Exploration for and evaluation of mineral resources means the search for mineral resources, including minerals, oil, natural gas, and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

   Any other terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

Recognition of Exploration and Evaluation Assets

7. **When developing its accounting policies, an entity recognizing exploration and evaluation assets shall apply paragraph 12 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.***

Exemption from IPSAS 3 Paragraphs 14 and 15

8. Paragraphs 14 and 15 of IPSAS 3 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no IPSAS applies specifically to that item. Subject to paragraphs 10 and 11 below, this Standard exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

Measurement of Exploration and Evaluation Assets

Initial Measurement

9. Exploration and evaluation assets shall be measured at cost.

Elements of Cost of Exploration and Evaluation Assets

10. An entity shall determine an accounting policy specifying which expenditures are recognized as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

    (a) Acquisition of rights to explore;

    (b) Topographical, geological, geochemical and geophysical studies;

    (c) Exploratory drilling;

    (d) Trenching;

    (e) Sampling; and

    (f) Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

11. Expenditures related to the development of mineral resources shall not be recognized as exploration and evaluation assets. *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and IPSAS 31, *Intangible Assets* provide guidance on the recognition of assets arising from development.

12. In accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* an entity recognizes any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

Subsequent Measurement

13. An entity shall measure the exploration and evaluation assets at either historical cost or fair value. If fair value is used (either according to the model in IPSAS 45*, Property, Plant, and Equipment*, or according to the model in IPSAS 31) it shall be consistent with the classification of the assets (see paragraph 16).

Changes in Accounting Policies

14. **An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in IPSAS 3.**

15. To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in IPSAS 3, but the change need not achieve full compliance with those criteria.

Presentation

Classification of Exploration and Evaluation Assets

16. An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

17. Some exploration and evaluation assets are treated as intangible (e.g., drilling rights), whereas others are tangible (e.g., vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification of Exploration and Evaluation Assets

18. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognized, before reclassification.

Impairment

Recognition and Measurement

19. **Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with IPSAS 26, except as provided by paragraph 22 below.**

20. For the purposes of exploration and evaluation assets only, paragraph 21 of this Standard shall be applied rather than paragraphs 25–29 of IPSAS 26 when identifying an exploration and evaluation asset that may be impaired. Paragraph 21 uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a cash-generating unit, in the case of cash-generating assets per IPSAS 26.

21. One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

    (a) The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

    (b) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

(c) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

(d) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test in accordance with IPSAS 26. Any impairment loss is recognized as an expense in accordance with IPSAS 26.

Specifying the Level at which Exploration and Evaluation Assets are Assessed for Impairment

22. An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than a segment determined in accordance with IPSAS 18, *Segment Reporting.*

23. The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

Disclosure

24. An entity shall disclose information that identifies and explains the amounts recognized in its financial statements arising from the exploration for and evaluation of mineral resources.

25. To comply with paragraph 24, an entity shall disclose:

(a) Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

(b) The amounts of assets, liabilities, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

26. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IPSAS 45 or IPSAS 31 consistent with how the assets are classified.

Effective Date and Transition

Effective Date

27. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2027, it shall disclose that fact.**

28. When an entity adopts accrual basis IPSAS Standards, as defined in IPSAS 33*, First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

29. If it is impracticable to apply a particular requirement of paragraph 19 to comparative information that relates to annual periods beginning before January 1, 2027, an entity shall disclose that fact. IPSAS 3 explains the term 'impracticable'.

Appendix A

Amendments to Other IPSAS

Amendments to IPSAS 31, *Intangible Assets*

Paragraph 3 is amended, and paragraph 132L is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

…

(c) The recognition and measurement of exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources* ~~the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources~~).

…

Effective Date

…

132P. **Paragraph 3 was amended by IPSAS 50, *Exploration for and Evaluation of Mineral Resources*, issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

…

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*

Paragraphs 62D, 62E, and 154P are added. New text is underlined, and deleted text is struck through.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

…

IPSAS 50, *Exploration for and Evaluation of Mineral Resources*

62D. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to exploration and evaluation assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

62E. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45, it is not required to recognize exploration and evaluation assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

…

Effective Date

…

154P. **Paragraphs 62F and 62G were added by IPSAS 50, *Exploration for and Evaluation of Mineral Resources*, issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2027, it shall disclose that fact.**

…

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraph 3 is amended, and paragraph 85B is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

…

(d) The recognition and measurement of exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources* ~~the relevant international or national accounting standard dealing with measurement of exploration and evaluation assets~~).

…

Effective Date

…

85B. **Paragraph 3 was amended by IPSAS 50, *Exploration for and Evaluation of Mineral Resources*, issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 50.

Objective (see paragraphs 1 and 2)

BC1. This Basis of Conclusions summarizes the IPSASB's considerations in reaching the conclusions on IPSAS 50, *Exploration for and Evaluation of Mineral Resources.* This Standard is based on IFRS 6 *Exploration for and Evaluation of Mineral Resources* published by the IASB on December 31, 2004, including amendments up to March 2018. This Basis for Conclusions outlines only those areas where IPSAS 50 departs from the requirements of IFRS 6.

Background

BC2. IFRS 6 was issued by the IASB in December 2004. It allows a policy choice when accounting for expenditure during the exploration phase of a mine. IFRS 6 also prescribes the financial reporting if the entity chooses an accounting policy that recognizes and measures the exploration and evaluation expenditure as an asset. Prior to the issuance of this Standard there were no equivalent requirements in IPSAS for the financial reporting for the exploration for and evaluation of mineral resources.

BC3. The IPSASB published the Consultation Paper, Natural Resources, in May 2022, which proposed the development of guidance aligned with IFRS 6. Respondents to the Consultation Paper agreed with the IPSASB's proposal and the IPSASB decided that a separate Standard aligned with IFRS 6 should be developed.

Exploration for and Evaluation of Mineral Resources in the Public Sector

BC4. An entity will typically need to conduct exploration and evaluation activities to determine if a site should be developed. Before this Standard, there was no specific guidance on exploration and evaluation activities in IPSAS.

BC5. The IPSASB determined that guidance on exploration and evaluation costs should be aligned with IFRS 6, applicable to exploration and evaluation activities of a commercial nature, and not of a service delivery nature. In reaching this conclusion, the IPSASB determined that a number of resource-rich jurisdictions had entered into production sharing or co-production agreements with private companies, rather than the traditional mining licensing or royalty agreements. The IPSASB found that from the public sector entity's perspective, such agreements may fall within the scope of IPSAS 37, *Joint Arrangements,* and it is possible for the resulting joint operation or joint venture to incur exploration and evaluation costs.

BC6. The IPSASB noted that an entity may explore for mineral resources due to other rights, e.g., sovereign rights, without needing a license (a legal right). The IPSASB determined that, in such instances, the exploration and evaluation expenditures are within the scope of this Standard.

BC7. Respondents to the IPSASB's Consultation Paper, *Natural Resources* generally agreed with the IPSASB's approach to develop the Standard aligned with IFRS 6.

BC8. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRS 6 in the development of this Standard, except for terminology and other IPSASB-specific formatting and consistency amendments. The IPSASB decided to retain the terminology of "commercial viability" and "impairment of cash-generating assets" used in IFRS 6, because the Standard is only applicable to exploration and evaluation activities of a commercial nature, and it is considered that this would be a relevant to public sector entities who use the Standard.

BC9. The IPSASB noted the view of some respondents to Exposure Draft 86 that the Standard should provide guidance to recognize, as intangible assets, the State's power to issue exploration rights to entities. The

IPSASB noted that accounting by the issuer of the exploration rights is not in the scope of this Standard and noted, furthermore, that powers and rights conferred by legislation, a constitution, or by equivalent means, such as mining rights managed by the state itself, are also excluded from the scope of IPSAS 31, *Intangible Assets.*

Comparison with the Conceptual Framework

BC10. The IPSASB noted that where an entity chooses an accounting policy that recognizes and measures the exploration and evaluation expenditure as assets, that policy may not be consistent with the definition of an asset in the Conceptual Framework. Recent outreach by the IASB noted that private sector constituents generally agreed that IFRS 6 resulted in information that was useful to both preparers and users of IFRS financial statements. The IPSASB noted that guidance which is aligned with IFRS 6 should also result in useful information for preparers and users in the public sector and concluded that the exemption from applying paragraphs 14 and 15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provided for in paragraph 8 of the Standard is acceptable.

BC11. The IPSASB also noted that the IASB concluded its project on Extractive Activities in September 2023. No further changes to the accounting and disclosure requirements in IFRS 6 will be made, and the temporary nature of the exemption from paragraphs 11 and 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors will be removed as part of the IASB's next annual improvements cycle. The IPSASB agreed to align to the IASB's decision to remove the temporary nature of the exemption, which supports the conclusion on the usefulness of information per BC8.

Subsequent Measurement

BC12. The IPSASB agreed to align with IFRS 6 and the application of the Standard to operations of a commercial nature. Therefore, exploration and evaluation assets are held for their financial capacity (i.e., commercial purpose), to which the fair value measurement basis applies.

Reversal of impairment losses

BC13. The IPSASB noted that for the reversal of impairment losses, entities should apply the specified requirements set out in paragraphs 99–105 of IPSAS 26, *Impairment of Cash-Generating Assets*, because these requirements apply to all entities for all assets (excluding goodwill and equity investments classified as available for sale).

COMPARISON WITH IFRS 6

IPSAS 50, *Exploration for and Evaluation of Mineral Resources* is drawn from IFRS 6 *Exploration for and Evaluation of Mineral Resources*, including amendments up to March 2018.

The main differences between IPSAS 50 and IFRS 6 are as follows:

- IPSAS 50 uses different terminology from IFRS 6. For example, IPSAS 50 uses the terms “historical cost”, and “impairment of cash-generating assets”, while IFRS 6 uses the terms “cost model”, “revaluation model”, and “impairment of assets”.

COMPARISON WITH GFS

In developing IPSAS 50, *Exploration for and Evaluation of Mineral Resources,* the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- When an entity elects to capitalize exploration and evaluation expenditure, both IPSAS 50 and GFS require an entity to account for the expenditure as exploration and evaluation assets.
- IPSAS 50 requires the classification of exploration and evaluation assets as either tangible or intangible assets. GFS requires their classification as a type of intellectual property products.
- On initial recognition, the elements of cost in IPSAS 50 do not include a return to fixed capital used in the exploration and evaluation activity, while GFS does include a return to fixed capital.
- On subsequent measurement, IPSAS 50 allows the historical cost or current value model. In GFS, assets should be measured at market values, so the same valuation can result if the market approach is used as the measurement technique.
- On subsequent measurement, IPSAS 50 requires exploration and evaluation assets to be assessed for impairment and impaired when the carrying amount exceeds the recoverable amount. In GFS, consumption of the asset is the decline in the current value of the asset.
- IPSAS 50 includes disclosure requirements that are not present in GFS.

IPSAS 51, *TANGIBLE NATURAL RESOURCES HELD FOR CONSERVATION*

History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 51, *Tangible Natural Resources Held for Conservation* was issued in January 2026.

IPSAS 51, *TANGIBLE NATURAL RESOURCES HELD FOR CONSERVATION*

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International Public Sector Accounting Standard 51, *Tangible Natural Resources Held for Conservation*, is set out in paragraphs 1–78. All the paragraphs have equal authority. IPSAS 51 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. **The objective of this Standard is to establish the principles that an entity shall apply to report relevant information to users of financial statements about the nature, amounts, timing, and uncertainties arising from tangible natural resources held for conservation.**

2. To meet the objective in paragraph 1, this Standard:

   (a) Sets out the recognition, measurement, and presentation requirements for tangible natural resources held for conservation; and

   (b) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:

      (i) The nature of, and risks associated with, tangible natural resources held for conservation; and

      (ii) The effects of tangible natural resources held for conservation on the entity's financial position, financial performance, and cash flows.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for tangible natural resources held for conservation as defined in this Standard.**

4. **This Standard does not apply to:**

   (a) **Assets consisting of materials or supplies to be consumed in the production process or in the rendering of services, held for distribution in the ordinary course of operations or in the process of production for sale or distribution, which are within the scope of IPSAS 12, *Inventories*;**

   (b) **Assets held to earn rentals or capital appreciation, or both, which are within the scope of IPSAS 16, *Investment Property*;**

   (c) **Assets that are biological assets whose biological transformation is managed for sale, distribution, or conversion into agricultural produce, which are within the scope of IPSAS 27, *Agriculture*;**

   (d) **Service concession assets within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*;**

   (e) **Leases as defined in IPSAS 43, *Leases*;**

   (f) **Assets classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*;**

   (g) **Assets used in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used for more than one reporting period, which are within the scope of IPSAS 45, *Property, Plant, and Equipment*; and**

   (h) **Exploration and evaluation assets within the scope of IPSAS 50, *Exploration for and Evaluation of Mineral Resources*.**

5. **This Standard also does not apply to obligations relating to tangible natural resources held for conservation within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.**

Classification as Tangible Natural Resources Held for Conservation

6. The assessment of the unit of account for a resource may impact whether an item is within the scope of this Standard, as some resources could consist of multiple units of account. Each unit of account potentially could

be accounted for separately, and its classification is considered individually based on an entity's primary intended reason for holding that individual unit of account. Only units of account which meet the definition of a tangible natural resource held for conservation in paragraph 8 are classified as such and are within the scope of this IPSAS Standard. Other units of account that are held primarily for other purposes, such as those listed in paragraph 4, are accounted for based on the guidance in other IPSAS Standards.

7. Paragraphs AG2 and AG14–AG18 provide additional guidance on the unit of account, and paragraphs AG3–AG4 provide additional guidance on the scope of this Standard.

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

For the purposes of this Standard, a tangible natural resource held for conservation is a naturally occurring tangible asset that is managed to prevent its degradation.

A class of tangible natural resources held for conservation means a grouping of tangible natural resources held for conservation that are of a similar nature and are shown as a single item for the purpose of disclosure in the financial statements.

Terms defined in other IPSAS Standards are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

9. Paragraphs AG5–AG13 provide additional guidance on the definitions in this Standard.

Recognition

10. **A tangible natural resource held for conservation shall be recognized if, and only if:**

(a) **It is probable that service potential associated with the resource will flow to the entity;**

(b) **The entity controls the tangible natural resource held for conservation as a result of past events; and**

(c) **The tangible natural resource held for conservation can be measured reliably.**

11. An asset can be reliably measured if the variability in the range of reasonable cost or deemed cost measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed.

12. If an entity controls a tangible natural resource held for conservation which meets the definition of an asset, but does not meet the recognition criterion in paragraph 10(c), the information required by paragraph 68 shall be disclosed in the notes to the financial statements. If subsequently, the tangible natural resource held for conservation becomes reliably measurable, the entity shall, from that date, recognize the tangible natural resource held for conservation in accordance with paragraph 10 and apply the measurement principles in this Standard. Paragraphs AG19–AG24 provide additional guidance on the recognition of tangible natural resources held for conservation.

13. The unit of account (see paragraph 6) for a tangible natural resource held for conservation should also be considered when applying the recognition criteria and principles for initial and subsequent measurement. Depending on the characteristics and risks associated with the item(s), and considering the objectives of financial reporting, it may be appropriate to (a) disaggregate significant items into separate units of account, then apply the recognition criteria and measurement principles to each individual unit, or (b) aggregate individual items into one unit of account, then apply the recognition criteria and measurement principles to the aggregate value. Paragraphs AG2 and AG14–AG18 provide additional guidance on determination of the unit of account.

Subsequent Expenditures

14. An entity recognizes subsequent expenditures on tangible natural resources held for conservation in accordance with the recognition principle in paragraph 10. Under this principle, the costs of day-to-day maintenance which do not result in incremental service potential and other activities such as research (as defined in IPSAS 31, *Intangible Assets*) regarding conservation are recognized in surplus or deficit as incurred. The costs of day-to-day maintenance may primarily consist of the costs of labor and consumables and could include, for example, when rangers are employed to protect a tangible natural resource held for conservation or when some form of chemical treatment is applied.

15. In contrast, an entity may, for example, acquire additional parcels of land to expand an existing conservation area. Under the recognition principle in paragraph 10, the entity would recognize the acquisition cost of the additional land as part of the existing conservation area, as these costs result in incremental service potential that would likely flow to the entity.

Subsequent Expenditures on Unrecognized Tangible Natural Resources Held for Conservation

16. The recognition of a subsequent expenditure as an asset is unaffected by whether or not the underlying tangible natural resource held for conservation was initially recognized. If the subsequent expenditure relates to a tangible natural resource held for conservation that was not initially recognized because its cost or deemed cost could not be measured reliably, it should nonetheless be reviewed in light of paragraph 10 to determine whether or not it should be recognized as an asset.

Measurement

Initial Measurement

17. **Where a tangible natural resource held for conservation is recognized as an asset as the result of an event that is not a transaction in an orderly market, including non-exchange transactions, the asset shall be measured initially at its deemed cost (current value). The current value of a tangible natural resource held for conservation is measured at current operational value because these assets are held for their operational capacity. An entity shall apply IPSAS 46, *Measurement*, when determining current operational value.**

18. For the purpose of this Standard, the initial measurement of a tangible natural resource held for conservation at its current operational value in accordance with the requirement of paragraph 17, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraphs 26–30 and the supporting Application Guidance only apply where an entity elects to revalue a tangible natural resource held for conservation in subsequent reporting periods.

19. **A tangible natural resource held for conservation acquired through an exchange transaction shall be measured at its cost.**

Elements of Cost

20. The cost of a tangible natural resource held for conservation acquired in an exchange transaction comprises:

    (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

    (b) Any costs directly attributable to bringing the asset to the location and condition to be conserved as intended by management.

21. Examples of directly attributable costs are:

    (a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the acquisition, development (including rehabilitation) of the tangible natural resource held for conservation;

    (b) Costs of site preparation;

    (c) Initial delivery and handling costs; and

    (d) Professional fees.

22. Recognition of costs in the carrying amount of a tangible natural resource held for conservation ceases when the item is in the location and condition necessary for it to be capable of being conserved in the manner intended by management.

23. Paragraphs AG30–AG33 provide additional guidance on the measurement of deferred consideration and on the acquisition of a tangible natural resource held for conservation in exchange for non-monetary assets.

Subsequent Measurement

24. **After initial recognition, an entity shall apply the measurement requirements from IPSAS 46 by choosing either the historical cost model or the current value model as its accounting policy. An entity shall apply the chosen policy to an entire class of tangible natural resources held for conservation. If, after initial measurement, the current value of a tangible natural resource held for conservation cannot be reliably measured on a continuing basis, an entity shall apply the historical cost model to that resource. If the current value subsequently becomes reliably measurable and the entity chooses to apply the current value model, the change in accounting policy shall be dealt with as a revaluation in accordance with this Standard.**

Historical Cost Model

25. **Where an entity subsequently chooses to measure a tangible natural resource held for conservation, which was initially measured at its cost or deemed cost, at its historical cost, the resource shall be carried at that cost or deemed cost less any accumulated depreciation (if applicable) and any accumulated impairment losses.**

Current Value Model

26. **Where an entity chooses to measure a tangible natural resource held for conservation after initial recognition using the current value model, and its current value can be measured reliably, it shall be carried at a revalued amount, being its current operational value at the date of revaluation, less any subsequent accumulated depreciation (if applicable) and subsequent accumulated impairment losses.**

27. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current operational value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 28–30.**

28. **If the carrying amount of a class of tangible natural resources held for conservation is increased as a result of revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of tangible natural resources held for conservation previously recognized in surplus or deficit.**

29. **If the carrying amount of a class of tangible natural resources held for conservation is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of tangible natural resources held for conservation.**

30. **Revaluation increases and decreases relating to individual assets within a class of tangible natural resources held for conservation must be offset against one another within that class but must not be offset in respect of assets in different classes of tangible natural resources held for conservation.**

Depreciation

31. **An entity shall assess whether the useful life of a tangible natural resource held for conservation is finite or indefinite, and if finite, the length of that useful life. There is a rebuttable presumption that tangible natural resources held for conservation have indefinite useful lives, as these resources are typically not used or consumed like tangible assets within the scope of other IPSAS Standards.**

32. A tangible natural resource held for conservation with a finite useful life is depreciated, while a tangible natural resource held for conservation with an indefinite useful life is not depreciated. Paragraphs AG36–AG39 provide additional guidance on the assessment of whether a tangible natural resource held for conservation has an indefinite or finite useful life.

Assets with Indefinite Useful Lives

33. The term “indefinite” does not mean “infinite.” The useful life of tangible natural resources held for conservation should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, the conclusion that the useful life of a tangible natural resource held for conservation is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current condition.

Assets with Finite Useful Lives

34. **A tangible natural resource held for conservation shall be regarded as having a finite useful life when, based on an analysis of all the relevant factors, there is clearly a foreseeable limit to the period over which the asset is expected to provide service potential to the entity.**

35. The useful life of a tangible natural resource held for conservation may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.

36. **The depreciation charge for each period shall be recognized in surplus or deficit.**

37. **The depreciable amount of a tangible natural resource held for conservation shall be allocated on a systematic basis over its useful life.**

38. **The residual value, if appropriate, and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

39. **The depreciation method shall reflect the pattern in which the asset is expected to provide service potential to the entity.**

40. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date, and if there has been a significant change in the pattern in which the asset is expected to provide service potential to the entity, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.**

Impairment

41. **To determine whether a tangible natural resource held for conservation is impaired, an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Assets*. IPSAS 21 explains how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.**

42. An entity is required to review tangible natural resources held for conservation with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21.

Derecognition

43. **The carrying amount of a tangible natural resource held for conservation, or a part thereof, shall be derecognized:**

    (a) **On disposal;**

    (b) **When the entity ceases to control the resource; or**

    (c) **When no service potential is expected from the resource.**

44. **The gain or loss arising from the derecognition of a tangible natural resource held for conservation shall be included in surplus or deficit when the item is derecognized.**

45. **The gain or loss arising from the derecognition of a tangible natural resource held for conservation shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

46. The consideration receivable on disposal of tangible natural resources held for conservation is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 47, *Revenue*, reflecting the effective yield on the receivable.

Reclassification

47. If a tangible natural resource, or a specific part of that asset, is no longer primarily held for conservation, that asset or its specific part shall be reclassified based on its new primary intended use. Similarly, if the primary reason for holding a tangible natural resource within the scope of another IPSAS Standard has been changed to conservation, that asset shall be reclassified as a tangible natural resource held for conservation within the scope of this Standard.

48. Up to the date of reclassification, an entity continues to account for the asset using the IPSAS Standard that was applicable before the change in classification and considers whether the change is an indication of impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*.

49. Upon a reclassification of an asset or its specific part (along with its revaluation surplus if applicable and identifiable), the net carrying amount of the asset or its specific part immediately before reclassification shall be its cost for subsequent accounting (including subsequent measurement and if applicable, derecognition) in accordance with the IPSAS Standard applicable to the reclassified asset.

50. An entity shall reclassify a tangible natural resource held for conservation or a part of that resource as an asset (or disposal group) held for sale within the scope of IPSAS 44 if it meets the classification criteria specified in paragraphs 11–19 of IPSAS 44.

Presentation

Display

51. **Consistent with the requirements in paragraph 88 of IPSAS 1, *Presentation of Financial Statements*, an entity shall display tangible natural resources held for conservation as a separate line item in the statement of financial position.**

Disclosure

52. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of the financial statements to evaluate:**

    (a) **The nature of, and risks associated with, tangible natural resources held for conservation within the scope of this Standard; and**

    (b) **The effects of tangible natural resources held for conservation on the entity's financial position, financial performance, and cash flows.**

53. Information regarding tangible natural resources held for conservation which meet the definition of an asset must be disclosed in the financial statements, even when the asset is not recognized. (See paragraphs 68–71)

Disclosures for Recognized Tangible Natural Resources Held for Conservation

54. **For recognized tangible natural resources held for conservation, an entity shall disclose the following:**

    (a) **A narrative description of the recognized tangible natural resource held for conservation, including:**

        (i) **The nature or type of the resource;**

        (ii) **Information regarding the location and quantity of the resource;**

        (iii) **If applicable, the significant judgments applied to determine the various units of account of a tangible natural resource held for conservation;**

        (iv) **The significance of the tangible natural resource held for conservation in relation to achieving the entity's objectives, including how it is expected to provide service potential; and**

        (v) **The significant judgments applied to determine that the tangible natural resource held for conservation meets the asset recognition criteria;**

    (b) **The measurement model and basis used for determining the gross carrying amount;**

    (c) **If applicable, why the asset is depreciable, the depreciation method used, the residual value, if applicable, the useful lives or the depreciation rates used, and the gross carrying amount and the accumulated depreciation at the beginning and end of the period; and**

    (d) **A reconciliation of the carrying amount at the beginning and end of the period, showing:**

        (i) **Any additions;**

(ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**

(iii) **Increases and decreases resulting from revaluations under paragraphs 27–30 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21;**

(iv) **If applicable, depreciation;**

(v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21;**

(vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21; and**

(vii) **Other relevant changes, such as increases and decreases resulting from reclassifications under paragraph 47.**

55. **The financial statements shall also disclose for each class of recognized tangible natural resources held for conservation in the financial statements:**

(a) **The existence and amounts of restrictions on title, legal, or similar limits on the use of the resources due to environmental or other regulatory requirements;**

(b) **The existence and amounts of tangible natural resources held for conservation pledged as securities for liabilities; and**

(c) **The existence of other stewardship responsibilities.**

56. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For recognized tangible natural resources held for conservation, such disclosure may arise from changes in estimates with respect to:

(a) Residual values, if applicable;

(b) Useful lives; and

(c) Depreciation methods.

57. **If a class of recognized tangible natural resources held for conservation is stated at revalued amounts, the following shall be disclosed:**

(a) **The effective date of the revaluation;**

(b) **Whether an independent valuer was involved;**

(c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**

(d) **The sum of all revaluation surpluses for individual tangible natural resources held for conservation within that class; and**

(e) **The sum of all revaluation deficits for individual tangible natural resources held for conservation within that class.**

58. In accordance with IPSAS 21, an entity discloses information on impaired tangible natural resources held for conservation in addition to the information required by paragraphs 54(d)(iii) and 54(d)(v) –54(d)(vi).

59. Where applicable, entities are encouraged, but not required, to disclose the gross carrying amount of any fully depreciated tangible natural resource held for conservation, as users of the financial statements may find such information relevant to their needs.

60. In rare cases, the disclosure of information regarding the location, quantity, and carrying amount of a rare or endangered tangible natural resource held for conservation may lead to further endangerment or degradation. In these cases, an entity need not disclose such information, but shall disclose the general nature of the resource, together with the fact that, and the reason why, the information has not been disclosed. Paragraphs AG42–AG43 provide additional guidance on rare or endangered resources.

Current Value Measurement

61. As noted in paragraph 24, the initial measurement of a recognized tangible natural resource held for conservation at its deemed cost does not require the entity to choose the current value model for its accounting policy for subsequent measurement. Where it does so, the requirements of paragraph 62 are applicable for recognized tangible natural resources held for conservation which are subsequently measured using the current value model.

62. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

    (a) **For tangible natural resources held for conservation that are measured at current operational value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

    (b) **For current operational value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

63. To meet the objectives in paragraph 62, an entity shall consider all of the following:

    (a) The level of detail necessary to satisfy the disclosure requirements;

    (b) How much emphasis to place on each of the various requirements;

    (c) How much aggregation or disaggregation to undertake; and

    (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

    If the disclosures provided in accordance with this Standard are insufficient to meet the objectives in paragraph 62, an entity shall disclose additional information necessary to meet those objectives.

64. To meet the objectives in paragraph 62, an entity shall disclose, at a minimum, the following information for each class of tangible natural resources held for conservation measured at current operational value in the statement of financial position after initial recognition:

    (a) The current operational value measurement at the end of the reporting period;

    (b) Whether the current operational value measurements are estimated using observable or unobservable inputs;

    (c) For current operational value estimated using significant unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value measurement (e.g., a cost approach or a market approach). If there has been a change in measurement technique (e.g., changing from a cost approach to a market approach), the entity shall disclose that change and the reason(s) for making it. For current operational value measurements estimated using significant unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when

providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value measurement and are reasonably available to the entity;

(d) For current operational value measurements estimated using significant unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

(ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

(iii) Purchases and sales (each of those types of changes disclosed separately).

(e) For current operational value estimated using significant unobservable inputs, the amount of the total gains or losses for the period in paragraph 64(d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those tangible natural resources held for conservation held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For current operational value measurements estimated using significant unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value measurements from period to period); and

(g) For current operational value measurements estimated using significant unobservable inputs a narrative description of the sensitivity of the current operational value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower current operational value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the current operational value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with paragraph 64(c).

Paragraphs 65–66 provide information on determining the appropriate classes of tangible natural resources held for conservation for current value measurement disclosures.

65. For the purposes of current value measurement disclosures, an entity may decide that a greater disaggregation of the classes of tangible natural resources held for conservation (see paragraph 8) is required on the basis of the extent to which the current operational value uses observable or unobservable inputs. For example, assets whose current operational value can only be measured using significant unobservable inputs are likely to be subject to different risks compared to assets that can be measured using observable inputs. Such differences in risk may warrant disaggregation of these assets into different classes.

66. The number of classes may need to be greater for current operational value measurements estimated using significant unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of tangible natural resources held for conservation for which disclosures about current operational value measurements should be provided requires judgment. For example, a class of tangible natural resources held for conservation may often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide the information sufficient to permit reconciliation to the line items presented in the statement of financial position.

67. An entity shall present the quantitative current operational value measurement disclosures required by this Standard in a tabular format unless another format is more appropriate.

Disclosure of Unrecognized Tangible Natural Resources Held for Conservation

68. **Where a tangible natural resource held for conservation meets the definition of an asset but is not recognized in the financial statements because, at initial measurement, its cost or deemed cost cannot be measured reliably, the entity shall disclose:**

    (a) **Qualitative information regarding the resource such as the nature or type of resource, its location, and if available, its quantity;**

    (b) **The difficulties in obtaining a reliable measurement that prevented recognition; and**

    (c) **The significance of the unrecognized tangible natural resource held for conservation in relation to delivery of the entity's objectives.**

69. Similar to paragraph 60, in rare cases, the disclosure of information regarding the location and quantity of a rare or endangered unrecognized tangible natural resource held for conservation may lead to further endangerment or degradation. In these cases, an entity need not disclose such information but shall disclose the general nature of the resource held, together with the fact that, and the reason why, certain information has not been disclosed. Paragraphs AG42–AG43 provide additional guidance on rare or endangered resources.

70. Where subsequent expenditures on unrecognized tangible natural resources held for conservation are recognized, the disclosure requirements in paragraphs 54–67 will apply.

71. Where an entity acts as a steward of an unrecognized tangible natural resource held for conservation, the entity shall explain in the Notes to the Financial Statements the nature of its stewardship rights and responsibilities, including the legislation or similar means that establishes the stewardship arrangement over the resource.

Effective Date and Transition

Effective Date

72. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2028, it shall disclose that fact.**

73. When an entity adopts accrual basis IPSAS Standards, as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

74. **An entity shall apply this Standard using one of the following two methods:**

    (a) **Using a modified retrospective approach by recognizing the tangible natural resources held for conservation which meet the asset recognition criteria on the date of initial application of this Standard at their deemed costs (current operational values) as at the date of initial application. The entity shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity need not consider tangible natural**

resources held for conservation which had previously met the recognition criteria but were derecognized prior to the date of initial application; or

(b) **Retrospectively in accordance with IPSAS 3.**

75. For the purposes of the requirements in paragraph 74, the date of initial application is the start of the reporting period in which an entity first applies this Standard.

76. If the current operational value of a tangible natural resource held for conservation cannot be reliably measured upon the initial application of this Standard, the requirements in paragraph 12 are applicable and only disclosures are required upon initial application. If the tangible natural resource held for conservation becomes reliably measurable subsequent to initial application, the entity shall, from that date, recognize the tangible natural resource held for conservation in accordance with paragraph 10 and apply the measurement principles in this Standard.

77. If the application of this Standard results in the reclassification of an asset that was previously within the scope of another IPSAS Standard, the asset shall be reclassified as a tangible natural resource held for conservation at its carrying amount (along with any revaluation surplus, if applicable and identifiable) on the date of initial application of this Standard, and the entity shall apply the subsequent measurement requirements in paragraphs 24–42. An entity shall also consider whether or not the disclosure requirements in paragraphs 55(b) and 60 are applicable.

78. If an entity elects to apply this Standard using the modified retrospective approach in accordance with paragraph 74(a), the entity shall disclose this fact.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 51.

Introduction

AG1. This application guidance is organized into the following categories:

(a) Scope (paragraphs AG2–AG4);

(b) Definitions (paragraphs AG5–AG13);

(c) Recognition (paragraphs AG14–AG24);

(d) Measurement (paragraphs AG25–AG39); and

(e) Presentation (paragraphs AG40–AG43).

Scope (paragraphs 3–7)

Unit of Account and Scope

AG2. The assessment of the unit of account may impact whether an item is within the scope of this Standard, as a resource could consist of multiple units of account that are each within the scope of different Standards. Because of the potentially significant difference in accounting outcomes, the determination of the appropriate unit of account is critical when accounting for tangible natural resources, including those held for conservation. In these situations, the scoping requirements in paragraphs 3–7 should be applied to each unit of account, and only the unit(s) of account which meets the definition of a tangible natural resource held for conservation is within the scope of this Standard. Once an entity has determined that a unit of account is within the scope of this Standard, paragraph 13 requires the entity to apply the recognition and measurement guidance to each unit of account.

Other Scope Considerations

AG3. This Standard applies to all tangible natural resources held for conservation, and paragraph 4 provides additional clarification on assets that are not within the scope of this Standard. An entity may hold a tangible natural resource for multiple benefits, such as providing ecological and societal value, for public enjoyment, or for cultural reasons, and the conservation of these resources maintains these benefits for current and future generations. In situations where an entity holds a tangible natural resource for multiple objectives, the entity considers all relevant facts and circumstances to determine if the tangible natural resource is held primarily for conservation or for another purpose such as the production or supply of goods or services.

AG4. To be within the scope of this Standard, a tangible asset must have both of the following two key characteristics:

(a) The tangible asset must be naturally occurring; and

(b) It must be held primarily for conservation (see paragraphs AG6–AG13).

Some tangible assets may have certain aspects which overlap with these characteristics. For example, some heritage assets within the scope of IPSAS 45 could be preserved for the benefit of present or future generations because of their rarity and/or significance in relation, but not limited, to their archeological, cultural, or historical features. Such heritage assets are not within the scope of this Standard, as they are not naturally occurring and therefore do not have all of the necessary characteristics to meet the definition of a

tangible natural resource held for conservation. Similarly, other tangible assets such as land are naturally occurring, but if the land is not held primarily for conservation, it is also not within the scope of this Standard.

Definitions (paragraphs 8–9)

AG5. Naturally occurring items are the living and non-living components of the Earth, together constituting the biophysical and geophysical environment, which came into existence in nature.

AG6. Conservation is the act of managing and protecting a tangible natural resource from degradation and is sometimes referred to as preservation. Generally, both conservation and preservation refer to the same concept, but for the purposes of this Standard, the term conservation is used.

AG7. In practice, the activities which constitute conservation vary significantly depending on the resource that is being conserved and the objective of the conservation effort. In some situations, conservation could be limited to restricting access to a resource. In other situations where a resource requires rehabilitation, conservation could involve actively managing the growth or restoration of the resource.

AG8. Tangible natural resources held for conservation, rather than for their use or for disposal, may be recognized as assets because of the service potential provided in achieving the objectives of a public sector entity. For example, a government or public sector entity could have an objective to conserve a tangible natural resource, as the resource is perceived to provide cultural or ecological value to its citizens in current and future generations. The cultural or ecological value resulting from achieving the public sector entity's objective represents service potential which could give rise to an asset.

AG9. An entity may demonstrate that a tangible natural resource held for conservation embodies service potential when there is a plan detailing how the conservation of the item is expected to achieve the entity's objectives, the entity's ability and intent to carry out the plan, and if necessary, how the entity will obtain the resources necessary to carry out this plan. Tangible natural resources held for conservation which embody service potential, are controlled by the entity as a result of past events and can be measured reliably shall be recognized as an asset within the scope of this Standard.

AG10. In the context of conservation, degradation generally refers to the reduction in the overall service potential embodied in a tangible natural resource held for conservation. Degradation can result from events leading to a decline in the quantity and/or quality of a tangible natural resource held for conservation, and could include:

(a) Depletion due to the active use or consumption of an asset, even if the use or consumption is carried out by a third party;

(b) Destruction of the asset, such as forest fires resulting from deliberate or accidental human action; and

(c) Other events that could result in the decline in the quantity and/or quality of the asset, such as pollution.

AG11. Some events may appear to lead to a decline in the quantity and/or quality of a resource when viewed in isolation but generally do not constitute degradation when considered in the context of the natural processes that are applicable to the tangible natural resource held for conservation. For example, the natural death of individual living resources due to age or disease within an increasing population is generally not considered degradation.

AG12. In some situations, preventing the degradation of a resource could result in an increase in its service potential due to the resource's natural growth. While an increase in service potential is a possible result of conservation, such an increase is not a necessary requirement for conservation within the context of this Standard.

AG13. Some tangible natural resources held for conservation may be prone to uncontrollable events, such as frequent earthquakes or floods, which could lead to their degradation. For these resources, conservation

activities may be limited to the mitigation of the potential degradation to these resources, as it is unlikely that the entity will be able to completely prevent the degradation of the resource from these events.

Recognition (paragraphs 10–13)

Unit of Account

AG14. This Standard does not prescribe a unit of account for a tangible natural resource held for conservation. However, the identification of a unit of account should be based on what the entity judges to be the most useful and relevant to users of the financial statements and achieves the qualitative characteristics of financial reporting while taking into account the constraints, such as materiality and cost-benefit considerations.

AG15. The following factors can indicate that separate tangible natural resources held for conservation may be aggregated into one single unit of account:

(a) The items are subject to similar risks, despite having some different physical characteristics;

(b) The items are managed together in aggregate and likely subject of the same transactions;

(c) The items are unlikely or unable to separately provide service potential to the entity; and

(d) The items can be measured together as a group and the entity is unable to measure the items individually.

AG16. For example, there may be different natural resources held for conservation, such as a rare natural forest and multiple wild animal species in a large reserve area which is being conserved on an integrated basis. Activities such as controlling access into the reserve and monitoring the biodiversity within the area could be performed on a reserve-wide basis with the different species of plants and animals within the reserve not being managed individually. Although the land, forest and animal species have different physical characteristics, the variety of conservation activities on different items in the reserve are designed to ensure that all biodiversity will flourish as a single unit. In this case, it may be appropriate to account for the various tangible natural resources within the reserve, including the land, as a single unit of account.

AG17. In contrast, the following factors can indicate that significant parts of a tangible natural resource held for conservation may constitute separate units of account:

(a) The parts are separately identifiable and measurable; and

(b) The parts are material in relation to the overall asset.

For example, if a specific part of a tangible natural resource held for conservation has a finite useful life while the rest of the resource has an indefinite useful life, the specific part could constitute a separate unit of account. See paragraph AG39.

AG18. The determination of the unit of account may also impact the subsequent measurement of a tangible natural resource held for conservation. When a tangible natural resource held for conservation consists of multiple units of account, and the cost or current value of each unit is significant in relation to the total cost or current value of the resource, each unit of account shall be measured separately. Therefore, subsequent measurement considerations need to be carefully considered by the entity when making the initial judgment about the appropriate unit of account for financial reporting purposes.

Application of the Recognition Criteria

AG19. The recognition of a tangible natural resource held for conservation as an asset involves an assessment of any uncertainties related to the existence and measurement of the item. For some naturally occurring items, until the item is extracted, there will be uncertainty over the existence, quantity and quality of the item in a given location. This impacts the assessment of whether the item is a recognizable asset because an item

that is subjected to existence uncertainty may not be considered a resource until this uncertainty has been resolved.

AG20. An entity evaluates all costs related to a tangible natural resource held for conservation at the time they are incurred using the recognition principle in paragraph 10. These costs include costs incurred initially to acquire the resource.

Control as a Result of Past Events

AG21. An entity can obtain control of a resource through an event that is not a transaction in an orderly market, which could include non-exchange transactions or the exercise of sovereign powers, or through exchange transactions, such as a purchase from a third party. The exercise of sovereign power creates an asset only when the entity has a right to receive resources, and it can control those resources. For example, a government entity may be required to pass legislation and establish a legal framework to implement programs to conserve a tangible natural resource before being able to conclude that these resources can be controlled.

AG22. In assessing whether it presently controls a tangible natural resource held for conservation, an entity assesses whether one or more of the following indicators of control exist:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict others to access the resource;

(c) The means to ensure that the entity can achieve its objectives with the resource; or

(d) The existence of an enforceable right to service potential arising from the resource.

Assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

AG23. No one indicator is more important than another indicator. Legal ownership is only one indicator demonstrating control of a tangible natural resource held for conservation. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the conservation of the resource and obtain its service potential. Conversely, an entity may have legal ownership but no rights to the service potential. In such circumstances, an entity considers substance over form in determining whether or not it controls the asset.

Changes in the Ability to Reliably Measure a Resource due to Changes in Facts and Circumstances

AG24. When a tangible natural resource held for conservation becomes reliably measurable due to changes in facts and circumstances, an entity applies the guidance on changes in accounting estimates in IPSAS 3.

Measurement (paragraphs 17–42)

Application of the Current Value Model

AG25. The frequency of revaluations depends upon the changes in current values of the tangible natural resources held for conservation being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some tangible natural resources held for conservation may experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for other tangible natural resources held for conservation. For example, a mature tangible natural resource held for conservation with only insignificant annual changes in current value may only require a revaluation every three or five years.

AG26. When a tangible natural resource held for conservation is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated proportionately to the change in carrying amount. The accumulated depreciation (if applicable) at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation (if applicable) and accumulated impairment losses forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 28 and 29.

AG27. A class of tangible natural resources held for conservation is a group of assets of a similar nature or subject to similar conservation activities. The following are examples of separate classes:

(a) Conservation areas consisting of land, wildlife, habitat areas, and bodies of water which are all subjected to the same management activities;

(b) Certain species of animals subject to a specific conservation program; and

(c) Forests in designated areas.

AG28. The items within a class of tangible natural resources held for conservation are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

AG29. Some or all of the revaluation surplus included in net assets/equity in respect of tangible natural resources held for conservation may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of tangible natural resources held for conservation to which the surplus relates are derecognized. However, if depreciation is applicable, some of the surplus may be transferred as the assets are depreciated. In such a case, the amount of surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets, and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

Deferred Consideration

AG30. The cost of a tangible natural resource held for conservation for an item referred to in paragraph 19 is the cash price equivalent at initial recognition. If payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.

Exchange of Assets

AG31. One or more tangible natural resources held for conservation may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such a tangible natural resource held for conservation is measured at its current value (see paragraph AG33) unless: 1) the exchange lacks commercial substance;

or 2) the current value of neither the asset received nor the asset given up is reliably measurable. (See paragraph 11.) The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at current value, its cost is measured at the carrying amount of the asset given up.

AG32. An entity determines whether an exchange transaction has commercial substance by considering the extent to which the net future cash flows and/or service potential from the exchanged assets are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) The configuration (risk, timing, and amount) of the service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) The portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) The difference in (a) or (b) is significant relative to the current value of the assets exchanged.

For the purpose of determining the portion of the entity's operations affected by the transaction, as in paragraph AG32(b), the entity calculates the present value of the expected cash flows (or post-tax cash flows when tax applies) to arise from the continuing use of an asset and from its expected disposal. The result of these analyses may be clear without an entity having to perform detailed calculations.

AG33. For a tangible natural resource held for conservation acquired through a non-monetary exchange transaction, if an entity is able to measure reliably the current operational value of either the asset received or the current value of the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current operational value of the asset received is more clearly evident.

Depreciation

AG34. Although there is a rebuttable presumption that the tangible natural resources held for conservation within the scope of this Standard have indefinite useful lives, a tangible natural resource held for conservation may still have a finite useful life based on an analysis of all relevant factors. In such cases, a significant part of the tangible natural resource held for conservation may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same resource. Such parts may be grouped in determining the depreciation charge.

AG35. To the extent that an entity depreciates separately some parts of a tangible natural resource held for conservation, it also separately considers depreciation for the remainder of the resource unless the remainder consists of the parts that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the useful lives of its parts. In some situations, an entity may conclude that the remainder of the resource has an indefinite useful life and is, therefore, not depreciated.

Finite and Indefinite Useful Lives

AG36. Many tangible natural resources held for conservation have indefinite useful lives. For example, although a conserved geological feature is subject to erosion over time, the applicable geological time scale is so long that there is no foreseeable limit to the period over which the asset is expected to provide service potential.

AG37. With some exceptions, land that is held for conservation has an indefinite useful life and therefore is not depreciated. One example of land with a finite useful life is when land is being encroached by rising sea levels and the entity expects that, within a finite period of time, the land will no longer be available due to either a severe and continual risk of flooding or actual submersion beneath the water.

AG38. Depending on the factors associated with the loss or displacement of land held for conservation, an entity may need to consider the appropriateness of depreciating land in future reporting periods and should continue to assess for impairment in accordance with the requirements of this Standard and IPSAS 21. Where land held for conservation is being lost or displaced as a result of, for example, unexpected coastline erosion, and such a loss was not contemplated in the assessment of useful life, the entity will need to apply:

(a) The derecognition requirements in paragraphs 43–46 of this Standard; or

(b) The impairment requirements in IPSAS 21.

AG39. When a tangible natural resource held for conservation consists of living resources, an entity will need to consider factors such as the characteristics and risks associated with the resource and its unit of account when determining whether the resource has an indefinite or finite useful life. Although individual organisms generally have a finite life, living resources are typically conserved at a population-wide level, so a stable or increasing population would generally support an indefinite useful life. Conversely, if a species is endangered and its overall population is declining over time, a finite life may be appropriate.

Presentation (paragraphs 51–71)

Disclosure of Unrecognized Tangible Natural Resources when Cost or Current Value Cannot be Measured Reliably

AG40. The disclosures required by paragraph 68 for unrecognized tangible natural resources held for conservation should ensure that, when read in the context of information about recognized tangible natural resources, the financial statements provide useful and relevant information about the entity's overall holding of tangible natural resources held for conservation, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.

AG41. These disclosures may be presented in aggregate for groups or classes of tangible natural resources held for conservation, provided this aggregation does not obscure significant information.

Additional Guidance on Rare or Endangered Tangible Natural Resources Held for Conservation

AG42. Endangered tangible natural resources held for conservation are resources which are seriously at risk of extinction, while rare tangible natural resources held for conservation refer to resources which are uncommon, scarce or infrequently encountered. While not automatically endangered, rare species of living resources are typically more vulnerable to extinction due to their limited numbers.

AG43. An entity assesses whether a resource is considered rare or endangered based on all relevant facts and circumstances, such as the known quantities of the resource or a population's vulnerabilities to risk factors such as disease or habitat loss. In practice, the assessment could also be based on designations determined by third parties such as international organizations or government organizations.

Appendix B

Amendments to Other IPSAS Standards

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 88(ba), 107(ca), and 153T are added, and paragraphs 92 and 134 are amended. New text is underlined, and deleted text is struck through.

Information to be Presented on the Face of the Statement of Financial Position

…

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

…

(ba) **Tangible natural resources held for conservation;**

…

92. The use of different measurement models for different classes of assets suggests that their nature or function differs and, therefore, ~~that~~ they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45. Similarly, different classes of tangible natural resources held for conservation can be carried at historical cost or current value in accordance with IPSAS 51, *Tangible Natural Resources Held for Conservation*.

…

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

…

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

…

(ca) Disposals of tangible natural resources held for conservation;

…

Disclosure of Accounting Policies

…

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the ~~fair~~ current value or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSASs specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, IPSAS 45 and IPSAS 51 require disclosure of the measurement bases used for classes of property, plant, and equipment or classes of tangible natural resources held for conservation. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

Effective Date

…

153T. **Paragraphs 88(ba) and 107(ca) were added, and paragraphs 92 and 134 were amended by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

…

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 59J is added and paragraph 22 is amended. New text is underlined, and deleted text is struck through.

…

22. **The initial application of a policy to revalue assets in accordance with IPSAS 31, *Intangible Assets*, ~~or~~ IPSAS 45, *Property, Plant, and Equipment*, or IPSAS 51, *Tangible Natural Resources Held for Conservation*, is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 31, ~~or~~ IPSAS 45, or IPSAS 51, rather than in accordance with this Standard.**

…

Effective Date

…

59J. **Paragraph 22 was amended by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

…

Amendments to IPSAS 12, *Inventories*

Paragraph 51K is added and paragraph 4 is amended. New text is underlined, and deleted text is struck through.

…

4. ~~[Deleted]~~This Standard does not apply to tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

…

Effective Date

…

51K. **Paragraph 4 was added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

…

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6(c) and 101M are added. New text is underlined.

…

6. This Standard does not apply to:

…

(c) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

…

Effective Date

…

101M. **Paragraph 6(c) was added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

…

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3(e) and 56L are added. New text is underlined.

…

3. This Standard does not apply to:

…

(e) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

…

Effective Date

…

56L. **Paragraph 3(e) was added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

…

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*

Paragraphs 62D, 62E, and 154R are added. New text is underlined.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

…

IPSAS 51, *Tangible Natural Resources Held for Conservation*

62D. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to tangible natural resources held for conservation until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).**

62E. This Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS Standards at the same time as considering the recognition of tangible natural resources held for conservation in IPSAS 51. Where a first-time adopter takes advantage of the exemption in this Standard, it is not required to recognize tangible natural resources until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

…

Effective Date

…

154R. **Paragraphs 62D and 62E were added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

…

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* — Issued in November 2025

Paragraphs 36A, AG54(m), AG56(j), and AG61 are added. New text is underlined.

…

Effective Date

…

36A. **Paragraphs AG54(m), AG56(j) and AG61 were added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

…

IPSAS 51, *Tangible Natural Resources Held for Conservation*

…

AG54. The following Standards are relevant:

…

(k) IPSAS 45, *Property, Plant, and Equipment*; ~~and~~

(l) IPSAS 50, *Exploration for and Evaluation of Mineral Resources*~~.~~; and

(m) IPSAS 51, *Tangible Natural Resources Held for Conservation*.

…

AG56. Where a first time adopter has not recognized the following non-financial assets under its previous basis of accounting, it may take advantage of the transition period and may recognize and/or measure them in accordance with the requirements of IPSAS Standards for reporting periods from any date within the transition period:

(i) Exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources*)~~.~~; and

(j) Tangible natural resources held for conservation (see IPSAS 51, *Tangible Natural Resources Held for Conservation*.)

AG61. **This IPSAS Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize non-financial assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS Standards at the same time as considering the recognition of tangible natural resources in IPSAS 51. Where a first-time adopter takes advantage of the exemption in this Standard, it is not required to recognize tangible natural resources held for conservation until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).**

…

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraphs 3(e) and AG2 are amended, and paragraph 85E is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

…

(c) Property, plant, and equipment classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; ~~and~~

(d) The recognition and measurement of exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources*)~~.~~; and

(e) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

…

Effective Date

…

85E. **Paragraphs 3(e) and AG2 were amended by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply these amendments for annual financial**

statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

…

Heritage Assets

…

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited to, their archeological, architectural, agricultural, artistic, cultural, ~~environmental,~~ historical, ~~natural,~~ scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

…

Basis for Conclusions

…

Definition of Property, Plant, and Equipment

…

Characteristics of Heritage and Infrastructure Assets

…

BC20A. During the development of IPSAS 51, *Tangible Natural Resources Held for Conservation*, the IPSASB decided to amend the description of heritage assets to better distinguish between heritage assets which are not naturally occurring and naturally occurring heritage assets held for conservation. As a result, the description of heritage assets in paragraph AG2 was amended to remove the references to environmental and natural features.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 51.

Introduction

BC1. In March 2020, the IPSASB approved the project brief for the Natural Resources project due to the significance of natural resources in many jurisdictions, the growing public concerns for sustainable management of the natural environment, and the lack of explicit accounting guidance on natural resources. The aim of the project was to develop IPSAS Standards guidance relating to the recognition, measurement, display, and disclosure of tangible natural resources by public sector entities in their general purpose financial statements (GPFS). As the project was a financial reporting project, the project brief stated that any resulting IPSAS Standards guidance would be developed in accordance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

BC2. In May 2022, the IPSASB issued the Consultation Paper (CP), *Natural Resources*. The CP discussed the application of the principles in the Conceptual Framework to the accounting for natural resources and set out a number of the IPSASB's overarching preliminary views, as well as preliminary views specific to subsoil resources, water, and living resources. The CP also highlighted the challenges with the recognition of unextracted subsoil resources as assets within the Conceptual Framework and clarified that recognition is not achievable due to their inherent existence uncertainty.

Development of Exposure Draft 92, *Tangible Natural Resources*

BC3. Respondents to the CP generally agreed with the IPSASB's preliminary views. The IPSASB received comments from indigenous groups indicating that based on indigenous traditions and practices, it may be difficult for any entity to demonstrate control over natural resources. Many respondents also acknowledged that natural resources are likely to only meet the asset recognition criteria in very limited circumstances, while others suggested that it may be more appropriate to report information on natural resources in the broader general purpose financial reports (GPFRs) due to the expected difficulties in recognition.

BC4. In response to this feedback, the IPSASB noted that from a financial reporting perspective, control over natural resources, and the broader issue of whether natural resources can be recognized, should be considered on a case-by-case basis using the recognition and measurement principles in the Conceptual Framework. Based on this reasoning and considering the original aim of the project, the IPSASB decided in March 2023 to proceed with developing Exposure Draft (ED) 92 to provide financial reporting guidance on natural resources in the context of the principles in the Conceptual Framework. The IPSASB also noted that the development of such financial reporting guidance in an IPSAS Standard does not preclude the Board from developing non-financial reporting guidance on natural resources in the future.

Focus on Tangible Items

BC5. When the IPSASB developed the project brief and the CP, the IPSASB decided to limit the scope of the project to tangible items for the following reasons:

(a) The feedback from constituents indicated that the development of guidance for tangible natural resources, such as subsoil resources, water, and living resources, was a greater priority than the development of guidance for natural resources without physical substance, i.e., intangible natural resources, such as the electromagnetic spectrum;

(b) The IPSASB decided that focusing on tangible natural resources alone in this project would be a more efficient use of its staff resources; and

(c) The development of guidance for intangible natural resources would be better accomplished if it was part of a more comprehensive update of the accounting guidance for intangible assets.

BC6. The IPSASB noted that the above reasons continued to be valid when it developed ED 92. As a result, the IPSASB decided to limit the focus of the ED to tangible natural resources and named the ED, "[draft] IPSAS [X], (ED 92), *Tangible Natural Resources*".

Location of Guidance and Objective of IPSAS 51

BC7. Due to the similarities between the proposed guidance on the recognition and measurement of natural resources and the potential relevance of guidance regarding assets within the scope of existing IPSAS, the IPSASB considered whether the guidance proposed in ED 92 should be located in a standalone IPSAS Standard or as amendments to existing IPSAS Standards. Having considered the topics that might need to be covered such as assets held for conservation purposes, the IPSASB decided that the proposed guidance on natural resources should be located in a standalone IPSAS Standard in order to address the challenges around recognition of such assets explicitly, for public interest reasons, as well as highlighting the importance of the topic in the public sector and providing guidance in a single place in order to facilitate implementation by preparers.

BC8. Respondents to ED 92 generally agreed with locating the guidance on tangible natural resources within a standalone IPSAS Standard or did not raise any concerns which were not previously considered by the IPSASB. As a result, the IPSASB decided to proceed with the development of guidance in a standalone IPSAS Standard.

Scope (paragraphs 3–7)

Scope of ED 92, Tangible Natural Resources

BC9. When ED 92 was developed, the IPSASB noted that some items which could be considered tangible natural resources may have a primary intended use within the scope of another existing IPSAS Standard. The IPSASB therefore decided to exclude such items from the scope of this Standard to avoid duplication of guidance. Based on this scoping approach, ED 92 was developed as a residual standard that applies to any items meeting the definition of tangible natural resources which are not within the scope of existing IPSAS Standards.

BC10. The IPSASB also discussed whether ED 92 should include guidance on the accounting and disclosure of natural resource-related obligations and decided that these obligations would be within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. As a result, the IPSASB decided that no additional guidance on such obligations would be provided in ED 92.

Scope of IPSAS 51, Tangible Natural Resources Held for Conservation

BC11. Respondents to ED 92 generally disagreed with the proposed residual scoping approach and noted that, consistent with an alternative view included in ED 92, they could not identify any tangible natural resources which were not already within the scope of existing IPSAS Standards other than those held for conservation. As a result, the IPSASB decided to clarify the scope to focus on conservation and named the final IPSAS Standard, "IPSAS 51, *Tangible Natural Resources Held for Conservation*." Based on this clarified scope, the flow chart in ED 92 regarding the proposed residual scoping approach and applicability of guidance was removed, as it was no longer necessary.

Definitions (paragraphs 8–9)

Development of the Definitions in the Consultation Paper and ED 92

BC12. When the IPSASB developed the CP, it had proposed to describe a 'natural resource' as an item which is: (a) a resource as described in the IPSASB's Conceptual Framework; (b) naturally occurring; and (c) in its natural state. While the IPSASB noted that the requirement to be in its natural state was necessary to delineate between natural and other resources, respondents to the CP noted that the general description would be difficult to implement due to a lack of clarity on what is in its natural state and what is considered naturally occurring.

BC13. In response to constituents' concerns, the IPSASB decided to develop a definition of 'tangible natural resource' in ED 92 using a top-down approach, starting with the broader concept of 'nature' as defined in other internationally relevant reporting frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) Framework and the United Nations System of Environmental-Economic Accounting (2012) (UN SEEA) Central Framework.

BC14. These frameworks envisioned nature as a collection of 'environmental assets,' which, at the time ED 92 was developed, were defined as the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity.

BC15. The IPSASB noted that the term 'environmental assets' embodies the same key characteristics of 'natural resources' as described in the CP. However, this term could not be incorporated as it was into the IPSAS Standards, as the term 'asset' already has a specific definition in the IPSASB's Conceptual Framework that is not consistent with how it is defined and used in the TNFD or UN SEEA frameworks.

BC16. Furthermore, the concept of providing benefits to humanity is similar to the concept of providing service potential or the capability to generate economic benefits in the IPSASB's Conceptual Framework. However, because the objective of financial reporting using IPSAS Standards is to provide information about an individual entity for accountability and decision-making purposes, the IPSASB decided it would be more appropriate for a tangible natural resource to refer to service potential or the capability to generate economic benefits rather than broadly referring to benefits to humanity.

BC17. Finally, because ED 92 focuses on tangible items only, using the term 'tangible natural resources' rather than 'environmental assets' is another way to highlight the differences from the concepts in the TNFD Framework and the UN SEEA Central Framework. This differentiation will avoid unintended interactions between tangible natural resources in financial reporting under IPSAS Standards and the reporting of naturally occurring items in the sustainability and statistical reporting context. The guidance from the other internationally relevant reporting frameworks could however still be relevant in considering the financial reporting treatment of items that these frameworks classify under the land, freshwater and ocean realms.

BC18. As a result, the IPSASB developed the definition of 'tangible natural resources' in paragraph 6 of ED 92 based on the term 'environmental assets' from the TNFD Framework and UN SEEA Central Framework but modified the definition to reflect the conventional nomenclature and objectives of financial reporting under IPSAS Standards.

Revisions to Definitions in IPSAS 51

BC19. Due to the clarification of scope as explained in paragraph BC11, the IPSASB decided to further revise the definitions in IPSAS 51 to be consistent with the clarified scope. The IPSASB noted that the definition of a tangible natural resource held for conservation would need to capture the following characteristics:

(a) The item is naturally occurring;

(b) The item is a resource which embodies service potential;

(c) The item has physical substance; and

(d) The item is held for conservation, which means it is managed to prevent its degradation.

BC20. Based on these characteristics, and to be consistent with the definitions in other IPSAS Standards, the IPSASB developed the definition in paragraph 8 of IPSAS 51 by referring to naturally occurring tangible assets which are managed to prevent their degradation. As a result of the new definition, the standalone definitions of ‘natural resource’ and ‘tangible natural resource’ were no longer needed and therefore were removed.

Recognition (paragraphs 10–13)

BC21. When the IPSASB developed the CP, it included preliminary views indicating that the recognition of tangible natural resources, especially subsoil resources, as assets in GPFS would be challenging due to the definition of an asset, and the asset recognition criteria in the Conceptual Framework, as well as limitations in the technologies currently used to identify, quantify, and establish the existence of certain tangible natural resources.

BC22. To operationalize the application of the asset recognition criteria from the Conceptual Framework to tangible natural resources held for conservation, the IPSASB looked to the recognition criteria in the IPSAS Standards for other tangible assets, such as IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, and IPSAS 45, *Property, Plant, and Equipment*. The IPSASB noted that most of these standards shared similar recognition criteria regarding the probable flow of future economic benefits or service potential to the entity and the ability to reliably measure the asset. These two criteria were used as a starting point to develop the recognition criteria in paragraph 10 of this Standard.

BC23. The IPSASB initially considered whether the first recognition criterion should include both economic benefits and service potential to be consistent with the recognition of tangible assets in other IPSAS Standards. However, after the clarification of scope as explained in paragraph BC11, the IPSASB decided that tangible natural resources held for conservation are only held for their operational capacity, as their conservation would only provide service potential to an entity. Other tangible natural resources which are held for their capacity to generate economic benefits, or both economic benefits and service potential, would likely be within the scope of other IPSAS Standards.

BC24. The IPSASB also noted that unlike property, plant, and equipment, investment property, or inventories where the determination of control is relatively straightforward when an entity incurs cost to acquire, develop, or construct the asset, the assessment of control for tangible natural resources held for conservation is more complex and will require the application of judgment to facts and circumstances specific to each resource. As a result, the IPSASB also included the demonstration of control from past events as an explicit recognition criterion for tangible natural resources held for conservation.

BC25. The IPSASB considered using the term “natural assets” to refer to tangible natural resources which have met the asset recognition criteria. However, this term was already used in the GPFRs of various public sector entities to broadly refer to items which include tangible natural resources held for conservation, infrastructure developed from tangible natural resources, or ecosystems. The IPSASB also considered using the term “tangible natural resource assets” but noted that some tangible natural resources held for conservation may meet the definition of an asset and remain unrecognized as they cannot be measured reliably. As a result, where guidance distinguishes between tangible natural resources held for conservation that are recognized from those that are not, such as in the disclosure requirements, this Standard refers to the items which meet the asset recognition criteria as ’recognized tangible natural resources held for conservation’.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

BC26. The IPSASB noted that, in IPSAS 45, the accounting for subsequent expenditures on heritage property, plant, and equipment is driven by whether the subsequent expenditure meets the recognition principles in IPSAS 45, and that this assessment is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. The IPSASB applied the same principle to subsequent expenditures relating to unrecognized tangible natural resources held for conservation in general and developed the guidance in paragraph 16.

Measurement (paragraphs 17–42)

BC27. To operationalize the principles from IPSAS 46, *Measurement*, and to be consistent with the standards on other tangible assets such as IPSAS 45, the IPSASB proposed that the measurement of a tangible natural resource held for conservation at initial recognition should be determined based on whether or not control of the asset was obtained as the result of an event that is a transaction in an orderly market. Tangible natural resources held for conservation which were recognized as the result of an event that is not a transaction in an orderly market, which could include a non-exchange transaction, would be recognized at their deemed cost (current value). In contrast, resources recognized as the result of an exchange transaction in an orderly market would be recognized at cost.

BC28. The IPSASB noted that it is more likely for a tangible natural resource held for conservation to be recognized from an event that is not a transaction in an orderly market, such as non-exchange transactions or the exercise of sovereign powers. In such cases, as there will be no direct cost information available, such assets will need to be initially measured at deemed cost. While the acquisition of tangible natural resources held for conservation in an exchange transaction is possible, such transactions are expected to be rare in the public sector. Based on these observations, the measurement guidance was drafted in a different order to focus on the initial measurement of events which are not a transaction in an orderly market.

BC29. For subsequent measurement of tangible natural resources held for conservation, the IPSASB decided to leverage the subsequent measurement guidance from IPSAS 45 and allow an entity to subsequently measure the asset using either the historical cost model or a current value model, independently of whether it was initially measured at cost or deemed cost.

BC30. The IPSASB noted that a tangible natural resource held for conservation will be held for its operational capacity. While the conservation of a tangible natural resource may indirectly result in economic benefits to a jurisdiction in the form of increased tourism or donations, the intent of the conservation effort is not to directly generate future economic benefits, such as a financial return. As a result, IPSAS 51 requires the current value of a tangible natural resource held for conservation to be measured at its current operational value.

Depreciation

BC31. The IPSASB noted that the tangible natural resources held for conservation are not typically used or consumed in a manner similar to tangible assets within the scope of other IPSAS Standards. As a result, the IPSASB decided to include a rebuttable presumption that tangible natural resources held for conservation generally have an indefinite useful life and are typically not depreciated. The IPSASB developed guidance on the assessment of whether a tangible natural resource held for conservation has an indefinite or finite life, as well as guidance on the depreciation of a resource that clearly has a finite useful life, based on guidance from IPSAS 45, tailored for conservation.

Derecognition (paragraphs 43–46)

BC32. The IPSASB decided to leverage the guidance from IPSAS 45 when developing the guidance on the derecognition of tangible natural resources held for conservation. The IPSASB also considered whether specific guidance on the sale and leaseback of tangible natural resources held for conservation should be developed but noted that such scenarios are expected to be exceptionally rare in practice. Furthermore, entities can leverage the general guidance on sale and leaseback transactions from IPSAS 43, *Leases*, if such situations do occur, so no specific guidance was needed.

Reclassification (paragraphs 47–50)

BC33. A public sector entity's primary reason for holding a tangible natural resource held for conservation may change due to, for example, management decisions or changes in facts and circumstances. The IPSASB developed guidance on the reclassification of an asset into and out of the scope of IPSAS 51 based on the principles on reclassifications in IPSAS 16—i.e., account for the asset using the previous IPSAS Standard up until the reclassification, then upon reclassification, account for the asset using the IPSAS Standard applicable to the reclassified asset at its then carrying amount.

BC34. Revaluation surpluses may arise when an entity applies the current value model in IPSAS 45 or IPSAS 51. The guidance on reclassification noted that revaluation surpluses are only reclassified if they are applicable and identifiable. When the current value model is applied to assets within the scope of IPSAS 45 and IPSAS 51, revaluation increases and decreases relating to individual assets within a class of assets must be offset against one another within that class, and an entity is required to disclose the sum of all revaluation surpluses or revaluation deficits for individual assets within the class. If a specific part of an asset is reclassified, the revaluation surplus or deficit associated with that specific part may not be identifiable.

Presentation (paragraphs 51–71)

BC35. The IPSASB decided to incorporate the disclosure proposals for recognized tangible natural resources from the CP, which are broadly consistent with the disclosure requirements from IPSAS 45.

BC36. In addition, when the IPSASB developed the CP, it had also proposed the following financial statement disclosures for unrecognized natural resources to address both the accountability and decision making objectives for financial reporting in the public sector:

(a) Qualitative disclosures for a natural resource which meets the definition of an asset but could not be recognized due to the inability to measure the resource reliably. These disclosures focused on explaining the difficulties in obtaining a reliable measurement and the significance of the natural resource to the delivery of the entity's objectives;

(b) Qualitative disclosures regarding its responsibilities relating to a natural resource, regardless of whether the resource is recognized; and

(c) Qualitative disclosures on unrecognized natural resources that do not meet the definition of an asset but are important to an understanding of the entity's finances or delivery of services.

BC37. The IPSASB decided to retain the proposed disclosures noted in paragraph BC36(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC36(b) was also retained, as it relates to potential obligations which are similar in nature to contingent liabilities or potential obligations from pledges, rather than the underlying unrecognized tangible natural resource held for conservation.

BC38. Respondents to the CP were particularly concerned by the requirements in paragraph BC36(c) and noted that such disclosures in the financial statements would likely not be auditable. As a result, the IPSASB decided to clarify that only information regarding tangible natural resources held for conservation that meet

the definition of an asset is to be disclosed in the financial statements. Items which do not meet the definition of an asset are not covered by any requirements within this Standard.

BC39. The IPSASB also noted that for tangible natural resources held for conservation which are subject to depreciation, due to uncertainties in the estimation of their useful lives and residual values, there could be situations where such resources continue to meet the asset recognition criteria but are fully depreciated. Similar to fully depreciated property, plant, and equipment, paragraph 59 was added to encourage entities to disclose the gross carrying amount of any fully depreciated tangible natural resources held for conservation.

Disclosure of Information Regarding Rare or Endangered Tangible Natural Resources

BC40. In some situations, the disclosure of information regarding rare or endangered tangible natural resources held for conservation, regardless of whether they are recognized, may lead to their further endangerment or degradation. For example, disclosing information on the quantity and location of endangered species may lead to their illegal poaching. To address this concern, the IPSASB decided to allow an entity to limit the disclosure of such information. This approach is similar to IPSAS 19, which has an exemption from disclosing information which may prejudice an entity's position in a dispute with other parties.

BC41. The IPSASB noted that it may be difficult for an entity to determine whether a resource is rare or endangered. As a result, the IPSASB provided guidance on what is considered rare or endangered and noted that in practice, the determination of whether a resource is rare or endangered could be based on designations made by third parties such as international organizations or government entities.

Effective Date and Transition (paragraphs 72–78)

BC42. The IPSASB noted that full retrospective application of this Standard might lead to some scenarios where an entity would need to account for tangible natural resources held for conservation which have been derecognized prior to the date of initial application. To provide transitional relief, the IPSASB decided that an entity could elect to apply this Standard using a modified retrospective approach and only recognize tangible natural resources held for conservation which meet the asset recognition criteria on the date of initial application. The IPSASB also considered allowing a prospective transition approach but noted that as many tangible natural resources held for conservation would have been controlled by an entity in historical periods, a large percentage of these resources would not be recognized if a prospective approach was used. As a result, only the full retrospective or modified retrospective approaches were included in this Standard.

BC43. In response to feedback on ED 92, the IPSASB also clarified that if a tangible natural resource held for conservation cannot be recognized because its current value cannot be reliably measured upon the initial application of this Standard, the guidance in paragraphs 12 and 68 is applicable and only disclosures are required until the resource becomes reliably measurable.

BC44. The IPSASB initially considered whether this Standard should be applied together with IPSAS 50, *Exploration for and Evaluation of Mineral Resources*, and *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*. However, as the guidance in these pronouncements is not related from a technical perspective and their application would not impact the implementation of this Standard, the IPSASB decided it was unnecessary to require the application of this Standard at the same time as the application of IPSAS 50 and the amendments to IPSAS 12.

Application Guidance (Appendix A)

Tangible Natural Resources Held for Conservation

BC45. Based on the clarified scope as explained in paragraph BC11, the IPSASB decided to provide additional application guidance to explain the concept of conservation and that whether a tangible natural resource is within the scope of this Standard will depend on an entity's primary intended purpose of holding the resource.

The IPSASB also decided to clarify in the application guidance that the terms conservation and preservation generally refer to the same concept but for the purposes of this Standard, the term conservation is used.

BC46. The IPSASB also observed that some heritage assets as described in IPSAS 45 could have similar characteristics as tangible natural resources held for conservation. While the accounting for heritage assets within the scope of IPSAS 45 and tangible natural resources held for conservation is similar, to help distinguish between these assets, the description of heritage assets in IPSAS 45 was amended to remove references to environmental and natural features. Paragraph AG4 was also developed to clarify that although certain heritage assets may have some of the characteristics of a tangible natural resource held for conservation, they are not within the scope of this Standard as they do not fully embody all of the characteristics required to meet the definition of a tangible natural resource held for conservation (i.e., they are not both naturally occurring and held primarily for conservation).

Identification of Potential Tangible Natural Resources

BC47. In response to the CP, some constituents raised concerns regarding whether it was necessary to perform a detailed exercise to create an inventory of all naturally occurring items in a jurisdiction in order to identify all potential tangible natural resources held for conservation. These respondents noted that such an exercise would be extremely costly, even if the resulting recognition, measurement, display, and disclosure impact in the GPFS will be minimal. When this Standard was developed, the IPSASB noted that the definition of tangible natural resources held for conservation in paragraph 8, along with the related application guidance in paragraph AG11 of the Standard, would limit the potential tangible natural resources held for conservation to naturally occurring items that are subject to a detailed management plan demonstrating how such items would provide service potential for the entity. In addition, Section B.1 of the Implementation Guidance was developed to explain how an entity can effectively identify all potential tangible natural resources held for conservation without individually considering each naturally occurring item in the jurisdiction.

Recognition upon Changes in Facts and Circumstances

BC48. The IPSASB noted that a tangible natural resource held for conservation which was initially not recognized as it could not be reliably measured could subsequently become measurable due to changes in facts and circumstances. The IPSASB considered developing guidance specific to such changes but noted that no additional guidance was required, as such scenarios are already addressed by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. As a result, the IPSASB decided to only include application guidance signposting to IPSAS 3 when such changes in facts and circumstances occur.

Amendments to Other IPSAS Standards (Appendix B)

BC49. Based on the guidance in this Standard, the IPSASB decided to amend certain presentation requirements in IPSAS 1, *Presentation of Financial Statements*, the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, as well as certain exemptions in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. These amendments relate to the presentation of tangible natural resources held for conservation as a separate line item in the statement of financial position, excluding tangible natural resources held for conservation within the scope of this Standard from the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, and exemptions regarding the recognition and measurement of tangible natural resources held for conservation in an entity's transitional IPSAS financial statements. The guidance in IPSAS 3 regarding the initial application of a policy to revalue assets in accordance with IPSAS 31, *Intangible Assets*, or IPSAS 45 was also amended to apply to revaluation of assets within the scope of IPSAS 51.

Implementation Guidance and Illustrative Examples

BC50. The IPSASB decided to add implementation guidance and illustrative examples to IPSAS 51 for topics that are complex and potentially difficult to apply in practice, are an area of concern for constituents, or would benefit from additional non-authoritative guidance.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 51.

Section A: Scope

A.1 Determination of Whether an Item Falls Within the Scope of IPSAS 51 (Paragraphs 3–7 and AG3–AG4)

When is a tangible natural resource within the scope of IPSAS 51 and how is conservation different from the uses of tangible assets within the scope of other IPSAS?

IG1. IPSAS 51 defines a tangible natural resource held for conservation as a naturally occurring tangible asset that is managed to prevent its degradation, and an item which meets this definition is accounted for within the scope of the Standard. The determination of which IPSAS Standard is applicable is based on the entity's primary intended purpose for holding the item, which is consistent with the scoping assessment in all other IPSAS Standards on tangible assets.

IG2. Conservation is distinct from the uses of tangible assets within the scope of other IPSAS, as these other Standards typically address the immediate or near-term use of an asset to provide service potential or economic benefits to the entity. In addition, these other uses often lead to the consumption of an asset, whereas conservation usually involves avoiding or limiting the use of a resource in a way which leads to its consumption.

How would an entity determine if a tangible natural resource is held for conservation?

IG3. There may be situations where clear legislation is in place requiring the conservation of a tangible natural resource by restricting its use. In other situations, it may not be clear whether a tangible natural resource is held primarily for conservation purposes, requiring an entity to exercise judgment to determine its primary intended purpose for holding the resource. For example, an entity may have the intention to conserve a tangible natural resource without any legislation in place to restrict access to the resource or its use. In these situations, the tangible natural resources may be primarily held for conservation purposes but could also be used to provide ancillary services.

IG4. Without clear legislation, it may be necessary to analyze the details of the relevant conservation program to determine whether a tangible natural resource is held primarily for conservation. Some factors to consider include:

(a) The intended purpose of the conservation program: The specification to protect a particular resource, such as a particular species or group of species, is a strong indicator that the tangible natural resource is held for conservation. In contrast, programs which are more concerned with enhancing or promoting the use of a resource, such as the maintenance of green spaces to attract more visitors, may indicate that conservation is not the primary objective;

(b) The nature and intent of program activities: Conservation activities will vary depending on the facts and circumstances for each resource. For some mature tangible natural resources, a conservation program may simply focus on limiting the impact of human activities on the resource. In other situations, an entity may need to perform activities such as providing feed or treatment for diseases to actively prevent the degradation of a resource. Regardless of the specific activities, those which are performed to maintain the state of a tangible natural resource are indicative of conservation; and

(c) The existence of a significant profit element: Some tangible natural resources held for conservation may be used to earn ancillary revenues to partially recover the costs of maintaining the resource. However, in some situations, a tangible natural resource may be managed to earn a profit. A program

which primarily focuses on the generation of revenues or profits may indicate that the tangible natural resources are part of plant, property, and equipment or inventory rather than held for conservation.

How would an entity assess if a resource that is held for multiple reasons is within scope of IPSAS 51?

IG5. In practice, some resources are held for multiple reasons or uses, and the determination of whether an asset is primarily held for conservation requires judgment, considering the relevant facts and circumstances specific to the use or reason for holding each asset.

IG6. In some situations, specific parts of a resource may be held for different purposes. These specific parts are different units of account, which are assessed individually to determine if they are within the scope of IPSAS 51. Such a situation could occur if, for example, a part of a forest is managed and harvested for agricultural purposes while another part of the same forest is held for conservation.

IG7. In other situations, the entire asset could be held for different uses or purposes, and the entity will need to apply judgment to develop a systematic or logical way to assess which use or reason for holding the asset is more significant. For example, an entity may hold land that is subject to a conservation program, to conserve the land's natural features for ecological reasons. The land is accessible to the public via a large network of hiking tracks to allow the public to experience the natural features of the conserved land. If the entity determines that the land is a single unit of account, the entity would need to apply judgment to determine whether the primary purpose for holding the land is conservation, and therefore within the scope of IPSAS 51. There may be different methods to support the determination of the land's primary purpose.

A.2 Unextracted Subsoil Resources (Paragraphs 3–7, and AG19)

Can unextracted subsoil resources be within the scope of IPSAS 51 and be recognized as assets in the financial statements?

IG8. Generally, no. Unextracted subsoil resources, such as minerals or petroleum deposits, are typically extracted for the future economic benefits from their use or sale, rather than held for the service potential from their conservation. As a result, these resources are not within the scope of IPSAS 51.

IG9. Furthermore, as noted in paragraph AG19, for some naturally occurring items, there will be uncertainty over the existence, quantity, and quality of the item until it is extracted, and this uncertainty impacts whether the item can be considered a resource. Because unextracted subsoil items are usually located deep underground, an entity is unlikely to be able to establish, using currently available scientific know-how and technological means, the existence, quantities, and quality of these items with the degree of certainty needed for asset recognition prior to their extraction.

Section B: Definitions

B.1 Identification of Tangible Natural Resources Held for Conservation (Paragraphs 8 and AG9)

Does an entity applying IPSAS 51 need to consider whether all tangible naturally occurring items within its jurisdiction are tangible natural resources held for conservation?

IG10. No. To meet the definition of a tangible natural resource held for conservation in paragraph 8 of IPSAS 51, a naturally occurring item must be a tangible asset and be subjected to conservation activities. It is unlikely that all tangible naturally occurring items within a jurisdiction would meet the definition of an asset, as they are unlikely to be resources if they are not actively managed or conserved. As explained in paragraph AG9 of IPSAS 51, this criterion is typically satisfied when an entity has a plan demonstrating how the naturally occurring item can provide service potential or generate economic benefits, the entity's ability and intent to carry out the plan, and whether the entity will obtain the resources necessary to carry out this plan. Therefore, one acceptable approach to ensure that the analysis of potential tangible natural resources held for

conservation is complete is to consider programs relating to the conservation of naturally occurring items. By focusing on such programs, an entity is not required to individually analyze each naturally occurring item within its jurisdiction. Some tangible natural resources may be subject to other programs which do not relate to conservation. Such programs could indicate that these resources are within the scope of other IPSAS Standards.

Section C: Recognition

C.1 Determination of Control (Paragraphs AG21–AG23)

What key considerations should an entity evaluate when assessing whether they control certain types of tangible natural resources held for conservation such as water and living resources?

IG11. In general, the control of a tangible natural resource held for conservation can be assessed based on the indicators listed in paragraph AG22 of IPSAS 51. Sometimes, a tangible natural resource held for conservation may consist of multiple units of account due to the different characteristics and risks associated with the specific parts of the resource. In such cases, the assessment of control is performed separately for each unit of account.

IG12. For a tangible natural resource held for conservation, the indicators of control are often directly impacted by the nature of the resource, as well as laws and regulations that are specific to the resource. The following discussion highlights some of the more prevalent factors that should be considered when assessing control over water and living resources held for conservation:

Water

IG13. Generally, the physical movement of free-flowing water such as oceans, seas, lakes, and rivers cannot feasibly be controlled. Therefore, it is unlikely that an entity is able to demonstrate control over these bodies of water.

IG14. Water that is physically housed in a managed environment could potentially be controlled. For example, some underground aquifers located in a jurisdiction can act as naturally occurring reservoirs holding ground water. An entity could demonstrate control over the water in such aquifers when:

(a) The entity has legal ownership of the aquifer and its contents in accordance with the applicable laws and regulations, and such legal ownership confers enforceable rights to the service potential embodied in the water;

(b) The entity has the means to manage the volume of water actively to ensure that it is available for meeting the entity’s conservation objectives. This is typically achieved by having an appropriate structure to house the water and control its flow; and

(c) The entity can restrict others from accessing the water. Such restrictions can consist of physical barriers such as fences, legislative mechanisms which legally prohibit other parties from access, the use of security personnel to prevent unauthorized access to the water, or a combination of the above.

Living Resources

IG15. Depending on the applicable laws and regulations, a public sector entity may have legal ownership of the living resources located within its jurisdiction, and such legal ownership could lead to an enforceable right to the service potential embodied in the resources. However, this assessment is not always straightforward. An entity may have difficulties demonstrating control over living resources that can move about, such as fish and animals, without some means to limit their movement to an area that is controlled by the entity. For example, even with physical barriers in place, it may not be feasible to effectively control the movements of certain animals. Since these animals can freely roam out of the areas controlled by an entity into neighboring

jurisdictions, it would be difficult for any entity to assert control. In contrast, it is generally easier to demonstrate control over plants, as these resources cannot relocate on their own.

IG16. Control over living resources also requires the ability to prevent others from accessing the resource. Like water, restricting access to living resources can be implemented through physical means such as barriers and fences, legislation prohibiting the use of the living resource, using security personnel to guard the living resources, or a combination of the above.

IG17. An entity's ability to direct the conservation of a living resource in a manner it sees fit is a strong indicator of control. In the most extreme case, the unfettered ability to sell a living resource held for conservation for cash or other resources would be a strong indicator of control over the resource. Similarly, the ability to freely change the primary intended use of a living resource held for conservation (e.g., from conservation to one's own use or for sale) is another strong indicator of control. However, in these scenarios, an entity should carefully consider whether these living resources are within the scope of IPSAS 51, as items that are used in production or held for sale are likely considered inventory within the scope of IPSAS 12 or biological assets within the scope of IPSAS 27.

C.2 Subsequent Expenditures Incurred to Conserve a Tangible Natural Resource (Paragraphs 10 and 14–16)

How should an entity account for subsequent expenditures incurred to conserve a tangible natural resource?

IG18. The recognition principle in paragraph 10 of IPSAS 51 is applicable to the expenditures incurred for the conservation of tangible natural resources. The resulting accounting is consistent with the accounting for subsequent expenditures relating to property, plant, and equipment in IPSAS 45:

(a) Expenditures which are incurred to maintain the current state of a tangible natural resource held for conservation are similar to maintenance expenses for property, plant, and equipment. These expenditures are recognized as expenses in surplus or deficit as incurred; and

(b) Expenditures that result in incremental service potential are recognized as an asset based on the recognition principle in paragraph 10. Depending on the nature of the expenditure and the appropriate unit of account, these expenditures could result in an increase in the carrying amount of an existing tangible natural resource held for conservation, similar to additions in IPSAS 45, or the recognition of a separate asset. For example, an entity that has impaired the carrying amount of a habitat asset because of physical damage may subsequently restore it by reintroducing native flora and fauna, then managing their growth until the habitat is comparable to a condition had the damage not occurred. As these restoration activities would result in an increase in the service potential of the habitat back to the levels before the impairment, the cost of introducing the flora and fauna and managing their growth would be capitalized.

C.3 Change in the Primary Reason for Holding an Asset (Paragraphs 47–50)

How would an entity account for land that is subject to "rewilding"?

IG19. "Rewilding" is the act of limiting human influence in an area with the aim of restoring the naturally occurring processes and biodiversity in that environment. In general, a change in an entity's primary intended reason for holding a tangible natural resource may lead to a change in which IPSAS Standard is applicable to the resource. See paragraphs 47–50 on Reclassification for details. In the context of rewilding land for the purpose of conservation, such a change may occur when there is evidence that an entity has ceased to use the land as an investment property or property, plant, and equipment. A change in use may be evidenced by events such as ending the occupation or use of the land, termination of a lease of the property to another party, or the removal of structures on the land.

IG20. Consistent with the guidance in paragraph 49, the net carrying amount of the land then becomes the carrying amount of the tangible natural resource held for conservation within the scope of IPSAS 51 upon the change in use.

IG21. As noted in paragraph 48 of IPSAS 51, the entity should also consider if the change in use meets one of the indicators of impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*.

C.4 Reassessment of the Unit of Account Due to Changes in Facts and Circumstances (Paragraphs AG2–AG4)

Could a change in the primary reason for holding an asset or changes in other facts and circumstances result in a reassessment of the unit of account?

IG22. Yes. As noted in Implementation Guidance C.3, a change in primary reason for holding an asset could result in a reclassification and, depending on whether the reclassification applies to the entire resource or a specific part of the resource, such a change could result in the need to reassess the unit of account for both the part of the resource with the change and the remaining portion of the resource.

IG23. For example, an entity obtains control of a conservation area in a non-exchange transaction. This conservation area consists of land and a native forest within the location, which are accounted for as two units of account—one for the land and another for the native forest. As the entity holds the area primarily for conservation, the two assets were initially measured at their current operational values. The entity has also decided to subsequently measure these assets at their current operational values, as using the current value model would result in more useful information for users of the financial statements.

IG24. Sometime later, approximately a quarter of the conservation area was destroyed in a forest fire. As a result of the significant physical damage to the forest, the entity applied IPSAS 21 and impaired the unit of account consisting of the native forest to its recoverable service amount.

IG25. The entity also determined that it is not feasible to restore the areas that have been damaged and made a formal decision to use this situation to clear the burned area and use the vacant land for the construction of administrative buildings. The entity determined that this significant change in the use of the vacant land did not result in an impairment loss, as the change in use would not have an adverse effect on the entity's land assets.

IG26. Due to the vacant land's new primary intended use as property, plant and equipment, that portion of the land is no longer part of the same unit of account as the land held for conservation. As a result, the entity applies the guidance on reclassification in paragraphs 47–50 of IPSAS 51 to reclassify the vacant land to an asset within the scope of IPSAS 45.

Section D: Measurement

D.1 Determination of Current Operational Value (Paragraphs 17, 26–30, and AG25–AG29)

How would an entity determine the current operational value for a tangible natural resource held for conservation?

IG27. In general, current operational value (COV) can be measured using a market approach or a cost approach. The use of a market approach does not necessarily result in a fair value measurement, as market prices can be used to estimate an asset's entry price.

IG28. For tangible natural resources held for conservation, which are held for their operational capacity, an active market with transactions involving an identical asset may not be available. However, an entity could still apply the market approach by using the price from an orderly transaction involving a similar asset. For example, an entity holding a forest for conservation may estimate its COV using an appraisal value of a similar land

and adjusting the value for specific differences in characteristics that may impact its service potential, such as differences in the size of the forested area or restrictions in how the forested area can be used.

IG29. If an active market for similar assets does not exist, an entity could also estimate COV using a cost approach by estimating the cost of developing a similar asset. Continuing with the forest example, the entity could estimate the forest's COV by accumulating the estimated costs of acquiring, planting, and growing saplings into mature trees, as well as the value of the land if it is not a separate unit of account.

D.2 Inability to Reliably Measure Current Value (Paragraph 11)

When may an entity conclude that the current value of a tangible natural resource held for conservation cannot be reliably measured?

IG30. The use of estimates is an essential part of the accrual basis of accounting, and there will often be uncertainty associated with the measurement of a tangible natural resource held for conservation. In some situations, the level of uncertainty in an estimate is so large that the relevance and faithful representativeness of a measure is questionable, even if disclosures are provided to explain the estimation techniques applied by the entity. Under these circumstances, the current value of the tangible natural resource held for conservation cannot be reliably measured.

IG31. The following factors may indicate that a tangible natural resource held for conservation cannot be reliably measured:

(a) There is a significantly wide range of values that could be reasonable;

(b) There is no reasonable way to assess the probabilities of various estimates; or

(c) There is no reasonable methodology or observable input available to measure the resource.

D.3 Exchange of Assets

How should an entity measure a tangible natural resource held for conservation acquired through a non-monetary transaction such as an exchange of assets?

IG32. As required by paragraphs AG31–AG33 of IPSAS 51, a tangible natural resource held for conservation that is acquired in a non-monetary transaction is typically measured at the current value of the asset(s) given up at the time of acquisition if it can be reliably measured. If the current operational value of the acquired tangible natural resource held for conservation is more evident, the acquired resource is measured at this current operational value. Such a situation could occur if, for example, an entity gives up a specialized asset that does not have an active market in exchange for a tangible natural resource held for conservation that is commonly purchased for conservation purposes.

IG33. There are two exceptions to the requirement to measure a tangible natural resource held for conservation acquired through a non-monetary transaction at current value:

(a) If both the current operational value of the tangible natural resource held for conservation acquired and the current value of the asset(s) given up cannot be reliably measured, the acquired resource is measured at the carrying amount of the asset(s) given up; and

(b) If the exchange transaction lacks commercial substance, the acquired resource is also measured at the carrying amount of the asset(s) given up.

IG34. Paragraph AG32 provides guidance on how to determine if an exchange transaction has commercial substance. Generally, an exchange transaction has commercial substance if:

(a) The configuration (risk, timing, and amount) of the service potential of the acquired tangible natural resource held for conservation is different from the configuration of the cash flows or service potential

of the asset(s) given up, and this difference is significant relative to the current value of the asset(s) given up; or

(b) The net change in the entity's operations resulting from the exchange is significant relative to the current value of the asset(s) given up.

IG35. Due to the specialized nature of tangible natural resources held for conservation, it may be evident that the acquisition of such an asset in a non-monetary exchange of assets has commercial substance without the need to perform a detailed numerical analysis. For example, if an entity gives up inventory to acquire a tangible natural resource held for conservation, the fact that items which were mainly held for their future economic benefits through sale were exchanged for a resource which is not expected to generate future cash flows could be sufficient to indicate that the transaction has commercial substance.

Section E: Display and Disclosure

E.1 Grouping of Disclosures (Paragraphs 52–71 and AG40–AG43)

Do IPSAS Standards require an entity to provide the disclosures that relate tangible natural resources held for conservation and other tangible natural resources within the scope of other IPSAS Standards in one note?

IG36. IPSAS Standards generally neither require nor prohibit an entity from grouping the disclosures of tangible natural resources within the scope of this and other IPSAS Standards into a single note. If an entity decides to group the disclosures, it needs to ensure that this grouping does not obscure the information presented. This is typically accomplished by reconciling the information disclosed in the note with the amounts that are included in the various financial statement captions which contain tangible natural resources.

IG37. The decision to group the disclosures of tangible natural resources together will depend on the entity's judgment on whether this results in more useful information for users of the financial statements compared to the potential costs of reorganizing the notes. When making this decision, the entity should consider the aggregation and disaggregation principles in IPSAS 1, *Presentation of Financial Statements*, as well as the requirements in IPSAS 18, *Segment Reporting*.

E.2 Disclosure of Stewardship Arrangements (Paragraphs 55 and 71)

What information regarding stewardship arrangements is required to be disclosed?

IG38. A public sector entity may enter into stewardship arrangements which confer certain rights and obligations related to a tangible natural resource held for conservation. Regardless of whether the related tangible natural resource held for conservation is recognized as an asset, the entity will need to consider the potential accounting and disclosure implications from the rights and obligations in its stewardship arrangements.

IG39. For example, certain treaties or legislation may grant rights to indigenous peoples to maintain and strengthen their relationship with resources that they have traditionally owned, or delegate conservation activities to a third party. Other arrangements may impose obligations or responsibilities, such as restrictions on the use of certain tangible natural resources held for conservation without the free, prior, and informed consent from indigenous peoples. These rights and obligations are required to be disclosed if their impact is material to the financial statements.

IG40. Some stewardship arrangements may also result in the recognition of an asset or liability that is outside the scope of IPSAS 51. For example, some arrangements may confer the right to a public sector entity to harvest or use a resource that is controlled by a third party, and such an arrangement may result in the recognition of an asset within the scope of IPSAS 31, *Intangible Assets*. Other arrangements may require a public sector entity to potentially provide funding or other support to a third party. For example, a public sector entity may

be required to fund the restoration of certain resources in the event of a natural disaster. Such an arrangement may result in the recognition or disclosure of an obligation as required by IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 51.

Introduction

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 51, *Tangible Natural Resources Held for Conservation*, to particular natural resources on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 51.

Scope

IE2. Examples 1–2 illustrate the application of paragraphs 3–7 of IPSAS 51 on the scope of the Standard.

Example 1: Accounting for Physically Similar Assets that are Held for Different Reasons

IE3. A public sector entity controls two regions of forested land in its jurisdiction, Area A and Area B. Both regions have similar physical characteristics and were initially uncultivated forests containing the same species of flora and fauna. There is no legislation that explicitly dictates how Regions A and B are to be used, but the regions are managed in accordance with different programs that have been created by the entity.

IE4. In accordance with the entity's program, Area A is opened to visitors. The entirety of Area A has been landscaped or cleared to create hiking paths and campgrounds within the area, and the majority of the vegetation in the area has also been replaced with species that are deemed to have higher aesthetic value or are safer for visitors. Visitors can pay a nominal fee to reserve a specific campground, or they can enter and use the campgrounds that are available for free without a reservation. In addition, the entity has hired a team of security personnel to manage the campground operations.

IE5. In contrast, the entity has announced to the public that Area B is a reserve and constructed fencing to limit human access to the area. Unlike Area A, the flora and fauna in Area B have been left in their natural state. While the entity has also hired a team of security personnel to patrol Area B, this security team has been instructed to deter individuals from trespassing into the region.

IE6. The entity applies judgment to the facts presented in paragraphs IE3–IE5 and concludes that Area A and Area B appear to be held for different primary intended purposes despite the fact that both regions initially had similar physical characteristics. The entity notes that Area A is primarily managed for use by the public for camping and hiking, and the introduction of new plants to facilitate this use rather than the conservation of native species indicates that the region is not primarily held for conservation.

IE7. The entity also observes that, regardless of whether the restrictions on the access and use of Area B are self-imposed, the facts and circumstances support the conclusion that the primary reason for holding the asset is for conservation. As a result, the entity concludes that Area B is within the scope of IPSAS 51.

Example 2: Use of Natural Spaces as Infrastructure

IE8. A government entity has a "Rain Garden Program" in place to develop natural spaces in urban areas. These "rain gardens" are naturally occurring green spaces which have been augmented with planted trees and other vegetation to help reduce the risk of flooding in the area and are considered more desirable than traditional constructed infrastructure such as dikes and reservoirs.

IE9. Because these rain gardens accomplish the same objectives as constructed infrastructure, the government entity concludes that they are considered property, plant, and equipment within the scope of IPSAS 45. This

assessment is separate from the consideration of whether the land on which the rain garden is located is an asset.

IE10. In some jurisdictions, the developed natural spaces such as the rain gardens in this example may be referred to as “modified natural assets”, “enhanced natural assets”, or “green infrastructure”. Regardless, the assessment of which IPSAS Standard to apply is based on the entity’s primary intended use of the item.

Measurement

IE11. Example 3 illustrates the determination of the current operational value of a tangible natural resource held for conservation when its current operational value is required by paragraphs 17 and 26 of IPSAS 51.

Example 3: Determination of Current Operational Value

IE12. A government entity obtains control of a 5,000-hectare plot of woodlands in its jurisdiction through a non-exchange transaction and has designated the forest and the land on which it is located as a ‘Conservation Area’ that is held primarily for conservation. As the conservation of the woodlands results in meeting the entity’s social and environmental objectives, the entity has concluded that the Conservation Area meets the definition of an asset. Since the asset was obtained in a non-exchange transaction, it is initially measured at deemed cost (which is current operational value (COV) in the context of tangible natural resources held for conservation), as required by paragraph 17 of IPSAS 51.

Case A – Valuation Performed by an External Valuation Specialist Using the Market Approach

IE13. To measure the COV of the Conservation Area, the entity engaged a valuation specialist who conducted a valuation in accordance with an internationally recognized valuation framework that is commonly used for property valuation.

IE14. The valuation specialist used data from historical purchases of forests held specifically for conservation, adjusted for the following factors:

(a) Differences in the location and size of the comparable forests;

(b) Differences in the species within the conservation area and the comparable forests; and

(c) Average age of plantation.

The valuation specialist also compared the resulting estimate with the value of physically similar forests that are held for the production of timber as a high-level check for the reasonability of the estimate, taking into account the different purposes for holding the asset. Based on the above valuation approach, the specialist estimated a COV of CU28 million on the date when the entity obtained control of the Conservation Area.

IE15. The entity considers the disclosure requirements for current value measurement in paragraphs 61–67 of IPSAS 51. In addition, depending on the materiality of the Conservation Area, the valuation could be a key source of estimation uncertainty due to issues such as limited or inconsistent historical data or the subjectivity inherent in the adjustments noted in paragraph IE14. As a result, the entity also considers the disclosure requirements in paragraphs 140–148 of IPSAS 1, *Presentation of Financial Statements*.

Case B – Estimation of COV Based on the Cost to Develop a Similar Asset

IE16. Alternatively, the entity can estimate the Conservation Area’s COV based on the cost to develop a similar forest. While it may be counterintuitive to estimate the cost to develop a tangible natural resource held for conservation, IPSAS 46, *Measurement*, allows the use of the cost to develop a *similar* asset. Therefore, an estimate of COV based on the cost to develop a forest physically similar to the Conservation Area is acceptable.

IE17. Based on this approach, the entity noted that it will take approximately 20 years to grow a forest comparable to the one in the Conservation Area. In addition, the entity estimated forestation costs of CU4,000 per hectare based on the costs for site preparation, the acquisition cost of seedlings of flora to be planted, and the present value of the labor and material costs to plant and maintain the trees during their 20-year growth period. In addition, the entity estimated that the cost of a plot of land with similar physical characteristics is approximately CU1,500 per hectare. Based on these estimates of the costs per hectare, the entity estimated a COV of approximately CU27.5 million.

IE18. As noted in paragraph IE15, as the above estimation of the COV could be a key source of estimation uncertainty, the entity will need to consider the disclosure requirements in paragraphs 140–148 of IPSAS 1 in addition to the disclosure requirements for current value measurement in paragraphs 61–67 of IPSAS 51.

Disclosure of Unrecognized Tangible Natural Resources Held for Conservation

IE19. Example 4 illustrates the application of paragraphs 12 and 68 of IPSAS 51 on the disclosure of a tangible natural resource held for conservation which meets the definition of an asset but is not recognized as it cannot be reliably measured.

Example 4: Unused Publicly Owned Land

IE20. A public sector entity obtains control of a plot of land in an uninhabited area through the exercise of its sovereign powers. Due to the remote location of the land and the characteristics of its flora and fauna, the entity plans to conserve the habitats in the area and concludes that the land and its habitats (collectively, the reserve) meet the definition of a tangible natural resource held for conservation. Based on these facts, the entity concludes that the reserve is within the scope of IPSAS 51 and should be initially measured at its deemed cost (current operational value) in accordance with paragraph 17.

IE21. To determine the current operational value of the reserve, the entity retained a number of valuation specialists to assist in the estimation process. Due to the remote location of the land and the difficulties in valuing its flora and fauna, the entity and the valuation specialists agreed that there is no reasonable basis on which to measure the reserve's current operational value.

IE22. As a result, the entity concludes that the reserve is an asset that cannot be reliably measured. Therefore, the entity applies the disclosure requirements in paragraph 68 of IPSAS 51 and discloses:

(a) The location and physical characteristics of the reserve;

(b) An explanation of the difficulties in obtaining a reliable measurement of the reserve's current value; and

(c) The significance of the reserve in relation to the delivery of the entity's objectives.

Transition

IE23. Example 5 illustrates the potential similarities and differences resulting from the application of IPSAS 51 using the modified retrospective transition approach and the full retrospective approach.

Example 5: Differences Between the Modified Retrospective and Full Retrospective Transition Methods

(Note: To isolate the impact of the transitional provisions, this example assumes that other than the events or transactions specified below, there are no other transactions within the entity.)

IE24. A central government entity with a December 31 year-end applies IPSAS 51 in year 20X4. The entity has elected to use the historical cost model and concluded that the tangible natural resource held for conservation in question has an indefinite useful life, i.e., it should not be depreciated.

IE25. When the country's constitution was established many years ago, the entity obtained control over a significant tangible natural resource held for conservation in its jurisdiction (Resource A). At the time, Resource A's current value was CU50 million. However, the entity did not consider recognition of an asset, as its accounting framework at the time did not have explicit guidance on the recognition of tangible natural resources held for conservation.

Case A – The Central Government Continues to Control the Resource on the Date of Initial Application

IE26. Since 20X2, the current value of Resource A has increased to CU70 million. The entity has continued to control Resource A throughout 20X2 to 20X4.

IE27. The entity considered the transitional requirements in paragraph 74 of IPSAS 51 and noted the following:

Modified Retrospective Approach (Paragraph 74(a))

IE28. Applying the guidance in paragraph 75, the date of initial application for the modified retrospective approach is January 1, 20X4. The modified retrospective approach requires the recognition of any tangible natural resources held for conservation that are controlled by an entity on the date of initial application at their current value. The cumulative effect of initially applying IPSAS 51 is recognized as an adjustment to opening accumulated surpluses or deficits.

IE29. As a result, the entity recognizes Resource A as an asset at CU70 million on January 1, 20X4 and adjusts its opening accumulated surpluses or deficits by CU70 million.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors *(Paragraph 74(b))*

IE30. If the entity applies IPSAS 51 in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained. This approach would result in the following:

(a) Resource A would be recognized as an asset of CU50 million upon the establishment of the country's constitution; and

(b) Because the entity elected to subsequently measure tangible natural resources using the historical cost model, on the date of initial application, Resource A would not be adjusted to CU70 million. The recognized asset and the opening accumulated surpluses or deficits would remain at CU50 million.

Case B - Resource was Sold Prior to the Date of Initial Application

IE31. In this case, the example facts outlined in paragraphs IE24–IE25 continue to be applicable. However, during 20X2, the entity classified Resource A as an asset held for sale and sold it for cash consideration of CU70 million. As the resource was previously unrecognized, there was no carrying amount to offset the consideration received, and the sale resulted in a gain of CU70 million.

IE32. Prior to the application of IPSAS 51, the entity's statement of financial position as at December 31, 20X2 would have consisted of cash and accumulated surpluses or deficits of CU70 million.

IE33. The entity considered the transitional requirements in paragraph 74 of IPSAS 51.

Modified Retrospective Approach (Paragraph 74(a))

IE34. The modified retrospective approach does not require the reconsideration of any tangible natural resources held for conservation that were no longer controlled on the date of initial application (January 1, 20X4). As a result, the entity does not need to make any adjustments to its opening statement of financial position.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors *(Paragraph 74(b))*

IE35. If the entity applies IPSAS 51 in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained and its subsequent sale in year 20X2. This approach would result in the following:

(a) Resource A would have been recognized as an asset valued at CU50 million when the country's constitution was established. Since the 20X4 financial statements only include comparative information for the 20X3 year, this CU50 million adjustment will only be reflected in the 20X3 opening accumulated surpluses or deficits;

(b) In year 20X2, the sale of Resource A would have resulted in a gain of only CU20 million (CU70 million cash consideration less Resource A's carrying amount of CU50 million). Since the entity is only presenting comparative information for the 20X3 year, this CU20 million gain will only be reflected in the opening accumulated surpluses or deficits in the 20X3 financial statements; and

(c) Although the gain in year 20X2 is different from the gain recognized before the application of IPSAS 51, it should be noted that the accumulated surpluses or deficits on January 1, 20X3 continue to be CU70 million (consisting of CU50 million from the initial recognition of Resource A and the gain of CU20 million from the sale of the resource).

COMPARISON WITH GFSM 2014

The following data recognition and measurement requirements in IPSAS 51 are aligned with those in Government Finance Statistics Manual 2014 (GFSM 2014):

- Both IPSAS 51 and GFSM 2014 require the recognition and measurement of tangible natural resources held for conservation, although GFSM 2014 does not report on these separately but includes them in the appropriate category of assets.
- IPSAS 51 requires initial measurement at deemed cost or cost depending on whether recognition resulted from a transaction in an orderly market and includes an accounting policy option that allows current operational value for subsequent measurement.

The following presentation requirements in IPSAS 51 are not aligned with those in GFSM 2014 even though recognition and measurement requirements are aligned:

- IPSAS 51 provides guidance on tangible natural resources held for conservation, while GFSM 2014 provides guidance on broader types of natural resources.
- IPSAS 51 requires the presentation of increases in the carrying amount in either net assets/equity or surplus or deficit, as appropriate. GFSM 2014 requires the presentation of changes in market value as other economic flows.
- IPSAS 51 requires the presentation of tangible natural resources held for conservation as a separate line item in the statement of financial position. GFSM 2014 includes tangible natural resources held for conservation within the appropriate category of nonfinancial assets in the balance sheet.

The following recognition and measurement requirements in IPSAS 51 need additional data to be collected for GFSM 2014 reporting:

- Where entities apply cost, deemed cost, or current operational value, there will be a need to collect additional data or separately identify data in the accounting system to be used for GFSM 2014 reporting.
- Where IPSAS 51 groups natural resources for presentation purposes, further breakdown by resource type (e.g., land, mineral and energy resources, and other naturally occurring assets) may be required for GFSM 2014 reporting.
- In GFSM 2014, assets are initially and subsequently measured at market value. Where current operational value is applied, IPSAS-based values may closely approximate the market value required by GFSM 2014. However, preparers should assess whether adjustments are needed, for example, to remove ownership transfer costs or reflect exit-price assumptions where these are material.

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GLOSSARY OF DEFINED TERMS IN IPSAS ACCOUNTING STANDARDS

This Glossary contains all terms defined in the 51-accrual basis IPSAS Accounting Standards approved up to January 31, 2026. A list of these IPSAS Accounting Standards is located after this Glossary. This Glossary does not include terms defined in the Cash Basis IPSAS Standard, *Financial Reporting under the Cash Basis of Accounting*. Users should refer to that Cash Basis IPSAS Standard for these terms.

Definitions

References to accrual basis IPSAS Standards are by Standard number and paragraph number. For example, 1.7 refers users to IPSAS 1, *Presentation of Financial Statements*, paragraph 7. References set out in brackets indicate a minor variation in wording.

Term	Definition	Location
12-month expected credit loss	The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.	41.9
accounting estimates Applicable for periods beginning on or after January 1, 2028.	Monetary amounts in financial statements that are subject to measurement uncertainty.	3.7
accounting policies	The specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.	3.7
accrual basis	A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.	1.7
acquired operation	The operation that the acquirer gains control of in an acquisition.	40.5
acquirer	The entity that gains control of one or more operations in an acquisition.	40.5
acquisition	A public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.	40.5
acquisition date	The date on which the acquirer gains control of the acquired operation.	40.5
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.	46.6

Term	Definition	Location
actuarial gains and losses	Changes in the present value of the defined benefit obligation resulting from: (a) Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) The effects of changes in actuarial assumptions.	39.8
actuarial present value of promised retirement benefits	The present value of the expected payments by a retirement benefit plan to participants attributable to service, as employees, already rendered.	49.9
agricultural activity	The management by an entity of the biological transformation and harvest of biological assets for: • Sale; • Distribution at no charge or for a nominal charge; or • Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.	27.9
agricultural produce	The harvested produce of the entity's biological assets.	27.9
amalgamation	Gives rise to a resulting entity and is either: (a) A public sector combination in which no party to the combination gains control of one or more operations; or (b) A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.	40.5
amalgamation date	The date on which the resulting entity obtains control of the combining operations.	40.5
amortization	The systematic allocation of the depreciable amount of an intangible asset over its useful life.	31.16
amortized cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.	41.9
annual budget	An approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7

Term	Definition	Location
appropriation	An authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.	24.7
approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.	24.7
assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.	1.7
asset ceiling	The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.	39.8
assets held by a long-term employee benefit fund	Assets (other than non-transferable financial instruments issued by the reporting entity) that: (a) Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and (b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either: (i) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or (ii) The assets are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8
bearer plant	A living plant that: (a) Is used in the production or supply of agricultural produce: (b) Is expected to bear produce for more than one period: and (c) Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.	27.9
benefits	The advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.	35.14
binding arrangement (for a service concession arrangement)	Describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.	32.8

Term	Definition	Location
binding arrangement (for a joint arrangement)	An arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.	35.14; 36.8
binding arrangement (for revenue transactions)	For the purposes of this Standard, an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.	47.4
binding arrangement asset	An entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance).	47.4
binding arrangement liability	an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.	47.4
biological asset	A living animal or plant.	27.9
biological transformation	Comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.	27.9
borrowing costs	Interest and other expenses incurred by an entity in connection with the borrowing of funds.	5.5
budgetary basis	The accrual, cash, or other basis of accounting adopted in the budget that has been approved by the legislative body.	24.7
capital transfer (for a resource recipient)	From the perspective of a resource recipient, an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. (Paragraph AG140 provides additional guidance.)	47.4
capital transfer (for a resource provider)	From the perspective of a transfer provider, an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient.	48.6
carrying amount (of an intangible asset)	The amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses.	31.16
carrying amount (of investment property)	The amount at which an asset is recognized in the statement of financial position.	16.7

Term	Definition	Location
carrying amount (of property, plant, and equipment)	The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.	45.5
carrying amount of a liability	The amount at which a liability is recognized in the statement of financial position.	10.7
carrying amount of an asset	The amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.	10.7
cash	Comprises cash on hand and demand deposits.	2.8
cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.	2.8
cash flows	Inflows and outflows of cash and cash equivalents.	2.8
cash-generating assets	Assets held with the primary objective of generating a commercial return.	21.14
cash-generating unit	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.	26.13, 44.9
change in accounting estimate Applicable up to periods beginning on or before December 31, 2027.	Is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.	3.7
class of property, plant, and equipment	A grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.	45.5
class of tangible natural resources held for conservation Applicable for periods beginning on or after January 1, 2028.	A grouping of tangible natural resources held for conservation that are of a similar nature and are shown as a single item for the purpose of disclosure in the financial statements.	51.8

Term	Definition	Location
close members of the family of an individual	Close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.	20.4
closing rate	The spot exchange rate at the reporting date.	4.10
collective services	Services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.	19.18
combining operation	An operation that combines with one or more other operations to form the resulting entity in an amalgamation.	40.5
commencement date of the lease	The date on which a lessor makes an underlying asset available for use by a lessee.	43.5
comparable basis	The actual amounts presented on the same accounting basis, same classification basis, for the same entities, and for the same period as the approved budget.	24.7
compliance obligation	An entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.	47.4
component of an entity	Comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.	44.9
conditions on transferred assets	Stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.	23.7
consolidated financial statements	The financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.	34.6
construction contract	A contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.	11.4

Term	Definition	Location
constructive obligation	An obligation that derives from an entity's actions where: (a) By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.	19.18
contingent asset	A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.	19.18
contingent consideration	Usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.	40.5
contingent liability	(a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) A present obligation that arises from past events, but is not recognized because: (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability.	19.18
contract	For the purpose of this Standard, is an agreement between two or more parties that creates enforceable rights and obligations.	43.5
contractor	An entity that performs construction work pursuant to a construction contract.	11.4
contributions from owners	Future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions	1.7

Term	Definition	Location
	being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed.	
control	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.	2.8
control of an asset	Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.	23.7
controlled entity	An entity that is controlled by another entity.	35.14
controlling entity	An entity that controls one or more entities.	35.14
cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.	16.7
cost approach	A measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).	46.6
cost plus or cost- based contract	A construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially based contract, an additional percentage of these costs or a fixed fee, if any.	11.4
costs of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.	21.14
cost of fulfillment	The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.	46.6
costs to sell	The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.	27.9
costs to sell	The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.	44.9

Term	Definition	Location
credit-adjusted effective interest rate	The rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortized cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see [IPSAS 41] paragraphs AG156–AG158), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	41.9
credit-impaired financial asset	A financial asset that is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: (a) Significant financial difficulty of the issuer or the borrower; (b) A breach of contract, such as a default or past due event; (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; (e) The disappearance of an active market for that financial asset because of financial difficulties; or (f) The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.	41.9
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows	41.9

Term	Definition	Location
	by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.	
credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	30.8
credit risk rating grades	A rating of credit risk based on the risk of a default occurring on the financial instrument	30.8
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	30.8
current asset	An entity shall classify an asset as a current asset when: (a) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; (b) It holds the asset primarily for the purpose of trading; (c) It expects to realize the asset within twelve months after the reporting period; or (d) The asset is cash or a cash equivalent (as defined in IPSAS 2, *Cash Flow Statements*) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.	44.9
current replacement cost Applicable up to periods beginning on or before December 31, 2027.	Is the cost the entity would incur to acquire the asset on the reporting date	12.9
current operational value	The amount the entity would pay for the remaining service potential of an asset at the measurement date.	46.6
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration.	47.4
date of adoption of IPSAS	The date an entity adopts accrual basis IPSAS for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which the entity presents its first transitional IPSAS	33.9

Term	Definition	Location
Applicable up to periods beginning on or before December 31, 2027.	financial statements or its first IPSAS financial statements.	
date of adoption of IPSAS Standards Applicable for periods beginning on or after January 1, 2028.		33.8 (issued in 2025)
decision maker	An entity with decision-making rights that is either a principal or an agent for other parties.	35.14
deemed cost	An amount used as a surrogate for transaction price at the measurement date.	46.6
deficit or surplus	Is: (a) The present value of the defined benefit obligation less (b) The fair value (as defined in IPSAS 46, *Measurement*) of plan assets (if any).	39.8
defined benefit plans	Post-employment benefit plans other than defined contribution plans.	39.8
defined benefit plans	For the purposes of this Standard, retirement benefit plans other than defined contribution plans.	49.9
defined contribution obligations	The amounts owed to participants under the terms of a defined contribution plan.	49.9
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.	39.8
defined contribution plans	For the purposes of this Standard, retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.	49.9
depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.	45.5
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.	45.5

Term	Definition	Location
derecognition	The removal of a previously recognized financial asset or financial liability from an entity's statement of financial position.	41.9
derivative	A financial instrument or other contract within the scope of this Standard with all three of the following characteristics. (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'). (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. (c) It is settled at a future date.	41.9
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.	31.16
distributions to owners	Future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.	1.7
disposal group	A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a public sector combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 90A–90H of IPSAS 26, Impairment of Cash-Generating Assets or if it is an operation within such a cash-generating unit.	44.9
discontinued operation	A component of an entity that either has been disposed of or is classified as held for sale and: (a) Represents a separate major operation or geographical area of operations; (b) Is part of a single coordinated plan to dispose of a separate operation or geographical area of operations; or (c) Is a controlled entity acquired exclusively with a view to resale.	44.9

Term	Definition	Location
dividends or similar distributions	Distributions to holders of equity instruments in proportion to their holdings of a particular class of capital	41.9
economic entity	A controlling entity and its controlled entities.	1.7, 35.14
economic life	Either: (a) The period over which an asset is expected to be economically usable by one or more users; or (b) The number of production or similar units expected to be obtained from an asset by one or more users.	43.5
effective date of the modification	The date when both parties agree to a lease modification	43.5
effective interest method	The method that is used in the calculation of the amortized cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in surplus or deficit over the relevant period.	41.9
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see [IPSAS 41] paragraphs AG156–AG158), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	41.9
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.	39.8
entry price	The price paid to acquire an asset or received to assume a liability in an exchange transaction.	46.6
equity interests	For the purposes of this Standard, is used broadly to mean ownership	40.5

Term	Definition	Location
	interests of investor-owned entities and owner, member or participant interests of mutual entities.	
equity instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	28.9
equity method (relating to interests in other entities)	Method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.	36.8
events after the reporting date	Those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified: (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).	14.5
exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.	4.10
exchange rate	The ratio of exchange for two currencies.	4.10
exchange transactions	Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange	9.11
exchange transactions	Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange	12.9
exit price	The price received to sell an asset or paid to transfer a liability.	46.6
executory contracts	Contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.	19.18

Term	Definition	Location
expected cash flow	The probability-weighted average (i.e., mean of the distribution) of possible future cash flows.	46.6
expected credit loss	The weighted average of credit losses with the respective risks of a default occurring as the weights.	41.9
expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.	1.7
expenses paid through the tax system	Amounts that are available to beneficiaries regardless of whether or not they pay taxes.	23.7, 47.4
exploration and evaluation assets Applicable for periods beginning on or after January 1, 2027.	Exploration and evaluation expenditures recognized as assets in accordance with the entity's accounting policy	50.6
exploration and evaluation expenditures Applicable for periods beginning on or after January 1, 2027.	Expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.	50.6
exploration for and evaluation of mineral resources Applicable for periods beginning on or after January 1, 2027.	The search for mineral resources, including minerals, oil, natural gas, and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.	50.6
fair value	For the purpose of applying the lessor accounting requirements in this Standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	43.5
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	46.6
fair value less costs to sell	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.	21.14

Term	Definition	Location
Applicable up to periods beginning on or before December 31, 2027.		
fair value less costs to sell Applicable for periods beginning on or after January 1, 2028.	The price that would be received to sell the asset in an orderly transaction between market participants less the costs of disposal.	21.14
final budget	The original budget, adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period	24.7
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.	43.5
financial asset	Any asset that is: (a) Cash; (b) An equity instrument of another entity; (c) A contractual right: (i) To receive cash or another financial asset from another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or (d) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.	28.9

Term	Definition	Location
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.	41.9
financial instrument	Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.	28.9
financial liability	Any liability that is: (a) A contractual obligation: (i) To deliver cash or another financial asset to another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or (b) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with [IPSAS 28] paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 15 and 16 or paragraphs 17 and 18.	28.9

Term	Definition	Location
financial liability at fair value through surplus or deficit	A financial liability that meets one of the following conditions: (a) It meets the definition of held for trading. (b) Upon initial recognition it is designated by the entity as at fair value through surplus or deficit in accordance with [IPSAS 41] paragraph 46 or 51. (c) It is designated either upon initial recognition or subsequently as at fair value through surplus or deficit in accordance with [IPSAS 41] paragraph 152.	41.9
financing activities	Activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.	2.8
fines Applicable up to periods beginning on or before December 31, 2025.	Economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.	23.7
fines	Economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.	47.4
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.	41.9
firm purchase commitment	An agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.	44.9
first IPSAS financial statements Applicable up to periods beginning on or before December 31, 2027.	The first annual financial statements in which an entity complies with the accrual basis IPSAS and can make an explicit and unreserved statement of compliance with those IPSAS because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.	33.9
first IPSAS financial statements Applicable for periods beginning on or after January 1, 2028.	Are the first financial statements that fairly present transactions and balances for the reporting period in compliance with the accrual basis IPSAS, and for which an entity can make an explicit and unreserved statement of compliance with those IPSAS Standards.	33.9 (issued in 2025)
first-time adopter	An entity that adopts accrual basis IPSAS for the first time and presents its	33.9

Term	Definition	Location
Applicable up to periods beginning on or before December 31, 2027.	first transitional IPSAS financial statements or its first IPSAS financial statements.	
first-time adopter Applicable for periods beginning on or after January 1, 2028.	An entity that adopts accrual basis IPSAS Standards for the first time	33.8 (issued in 2025)
fixed payments	Payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments	43.5
fixed price contract	A construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.	11.4
forecast transaction	An uncommitted but anticipated future transaction.	41.9
foreign currency	A currency other than the functional currency of the entity.	4.10
foreign operation	An entity that is a controlled entity, associate, joint venture, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.	4.10
functional currency	The currency of the primary economic environment in which the entity operates.	4.10
funding	The transfer of assets to an entity (the retirement benefit plan) separate from the employer/sponsor to meet future obligations for the payment of retirement benefits.	49.9
general government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting	22.15
goodwill	An asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.	40.5
grantor (in a service concession arrangement)	The entity that grants the right to use the service concession asset to the operator.	32.8
gross carrying amount of a financial asset	The amortized cost of a financial asset, before adjusting for any loss allowance.	41.9

Term	Definition	Location
gross investment in the lease	The sum of: (a) The lease payments receivable by the lessor under a finance lease; and (b) Any unguaranteed residual value accruing to the lessor.	43.5
group of biological assets	An aggregation of similar living animals or plants.	27.9
harvest	The detachment of produce from a biological asset or the cessation of a biological asset's life processes.	27.9
hedged item	An asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged ([IPSAS 29] paragraphs 87–94 and Appendix A paragraphs AG131–AG141 elaborate on the definition of hedged items).	29.10
hedge effectiveness	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument (see [IPSAS 29] Appendix A paragraphs AG145–AG156).	29.10
hedge ratio	The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.	41.9
hedging instrument	A designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item ([IPSAS 29] paragraphs 81–86 and Appendix A paragraphs AG127–AG130 elaborate on the definition of a hedging instrument).	29.10
held for trading	A financial asset or financial liability that: (a) Is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) On initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) Is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).	41.9
highest and best use	The use of a non-financial asset by market participants that would	46.6

Term	Definition	Location
	maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.	
highly probable	Means significantly more likely than probable.	44.9
historical cost	The consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.	46.6
identifiable	An asset is identifiable if it either: (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	40.5
impairment	A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.	21.14
impairment gain or loss	Recognized in surplus or deficit in accordance with [IPSAS 41] paragraph 80 and that arises from applying the impairment requirements in [IPSAS 41] paragraphs 73–93.	41.9
impracticable (1)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	1.7
impracticable (2)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if: (a) The effects of the retrospective application or retrospective restatement are not determinable; (b) The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or	3.7

Term	Definition	Location
	(c) The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that: (i) Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and (ii) Would have been available when the financial statements for that prior period were authorized for issue; from other information.	
income approach	A measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.	46.6
inception date of the lease	The earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.	43.5
individual services	Goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.	19.18
initial direct costs	Incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.	43.5
Inputs	The assumptions used when pricing the asset or liability, including assumptions about risk, such as the following: (a) The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and (b) The risk inherent in the inputs to the measurement technique. Inputs may be observable or unobservable.	46.6
intangible asset	An identifiable non-monetary asset without physical substance.	31.16
interest in another entity	Refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.	37.7

Term	Definition	Location
interest rate implicit in the lease	The rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.	43.5
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.	30.8
inventories	Assets: (a) In the form of materials or supplies to be consumed in the production process; (b) In the form of materials or supplies to be consumed or distributed in the rendering of services; (c) Held for sale or distribution in the ordinary course of operations; or (d) In the process of production for sale or distribution.	12.9
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.	2.8
investment entity	An entity that: (a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.	35.14
investment property	Property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for: (a) Use in the production or supply of goods or services, or for administrative purposes; or (b) Sale in the ordinary course of operations.	16.7
joint arrangement	An arrangement of which two or more parties have joint control.	36.8
joint control	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.	36.8
joint operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.	37.7

Term	Definition	Location
joint operator	A party to a joint operation that has joint control of that joint operation.	37.7
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.	36.8
joint venturer	A party to a joint venture that has joint control of that joint venture.	36.8
key management personnel	(a) All directors or members of the governing body of the entity; and (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: (i) Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; (ii) Any key advisors of that member; and (iii) Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.	20.4
lease	A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.	43.5
lease incentives	Payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.	43.5
lease modification	A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).	43.5
lease payments	Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following: (a) Fixed payments (including in-substance fixed payments), less any lease incentives; (b) Variable lease payments that depend on an index or a rate; (c) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (d) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.	43.5

Term	Definition	Location
lease term	The non-cancellable period for which a lessee has the right to use an underlying asset, together with both: (a) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.	43.5
legal obligation	An obligation that derives from: (a) A contract (through its explicit or implicit terms); (b) Legislation; or (c) Other operation of law.	19.18
lessee	An entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.	43.5
lessee's incremental borrowing rate	The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.	43.5
lessor	An entity that provides the right to use an underlying asset for a period of time in exchange for consideration.	43.5
level 1 inputs	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	46.6
level 2 inputs	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	46.6
level 3 inputs	Unobservable inputs for the asset or liability.	46.6
liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.	1.7
lifetime expected credit losses	The expected credit losses that result from all possible default events over the expected life of a financial instrument.	41.9
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.	30.8

Term	Definition	Location
loans payable	Financial liabilities, other than short-term trade payables on normal credit terms.	30.8
loss allowance	The allowance for expected credit losses on financial assets measured in accordance with paragraph 40, lease receivables, the accumulated impairment amount for financial assets measured in accordance with [IPSAS 41] paragraph 41 and the provision for expected credit losses on loan commitments and financial guarantee contracts.	41.9
market approach	A measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.	46.6
market participants	Are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: (a) They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, *Related Party Disclosures*, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.	46.6
market-corroborated inputs	Inputs that are derived principally from or corroborated by observable market data by correlation or other means.	46.6
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.	30.8
material Applicable up to periods beginning on or before December 31, 2026.	Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.	1.7

Term	Definition	Location
material Applicable for periods beginning on or after January 1, 2027.	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial statements prepared for that reporting period.	1.7
modification gain or loss	The amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows. The entity recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest rate (or the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with [IPSAS 41] paragraph 139. When estimating the expected cash flows of a financial asset, an entity shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset, in which case an entity shall also consider the initial expected credit losses that were considered when calculating the original credit-adjusted effective interest rate.	41.9
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.	4.10
most advantageous market	The market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.	46.6
multi-employer plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) Pool the assets contributed by various entities that are not under common control; and (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.	39.8
multi-year budget	An approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7
mutual entity	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and	40.5

Term	Definition	Location
	a co-operative entity are all mutual entities.	
net assets/equity	The residual interest in the assets of the entity after deducting all its liabilities. The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests. Types of reserves include: (a) Changes in revaluation surplus (see IPSAS 17, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*); (b) Remeasurements of defined benefit plans (see IPSAS 39, *Employee Benefits*); (c) Gains and losses arising from translating the financial statements of a foreign operation (see IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*); (d) Gains and losses from investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41, *Financial Instruments*; (e) Gains and losses on financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41; (f) The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 (see paragraphs 113–155 of IPSAS 41); (g) For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 108 of IPSAS 41); (h) Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see paragraphs 113–155 of IPSAS 41); and (i) Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see paragraphs 113–155 of IPSAS 41).	1.7
net assets available for benefits	Are:	49.9

Term	Definition	Location
	(a) For defined benefit plans – the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits and, in a hybrid plan, the defined contribution obligation to participants; and (b) For defined contribution plans – the assets of a plan less liabilities other than the defined contribution obligations to participants.	
net defined benefit liability (asset)	The deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.	39.8
net interest on the net defined benefit liability (asset)	The change during the period in the net defined benefit liability (asset) that arises from the passage of time.	39.8
net investment in a foreign operation	The amount of the reporting entity's interest in the net assets/equity of that operation.	4.10
net investment in the lease	The gross investment in the lease discounted at the interest rate implicit in the lease.	43.5
net realizable value	The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.	12.9
non-cash-generating assets	Assets other than cash-generating assets.	21.14
non-controlling interest	The net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.	35.14
non-current asset	An asset that does not meet the definition of a current asset.	44.9
non-exchange transactions	Transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.	9.11
non-exchange transactions	Transactions that are not exchange transactions, where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.	12.9

Term	Definition	Location
non-monetary items	Items that are not monetary items.	10.7
non-performance risk	The risk that an entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.	46.6
notes	Contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.	1.7
obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.	19.18
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.	46.6
onerous contract	A contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.	19.18
opening statement of financial position Applicable for periods beginning on or after January 1, 2028.	A first-time adopter's statement of financial position at the date of adoption of IPSAS Standards	33.8 (issued in 2025)
operating activities	The activities of the entity that are not investing or financing activities.	2.8
operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.	43.5
operation	An integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.	40.5
operator (in a service concession arrangement)	The entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.	32.8
optional lease payments	Payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.	43.5

Term	Definition	Location
orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).	46.6
original budget	The initial approved budget for the budget period.	24.7
other compulsory contributions and levies	Cash or another asset, paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.	47.4
other long-term employee benefits	All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.	39.8
other price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.	30.8
oversight	The supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.	20.4
owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes.	16.7
owners	For the purposes of this Standard, is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.	40.5
participants	The members of a retirement benefit plan and others who are entitled to benefits under the plan.	49.9
party to a joint arrangement	An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.	37.7
past due	A financial asset is past due when a counterparty has failed to make a payment when that payment was contractually due.	41.9
period of use	The total period of time that an asset is used to fulfill a contract with a customer (including any non-consecutive periods of time).	43.5

Term	Definition	Location
plan assets	Comprise: (a) Assets held by a long-term employee benefit fund; and (b) Qualifying insurance policies.	39.8
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.	39.8
post-employment benefits	Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.	39.8
power	Consists of existing rights that give the current ability to direct the relevant activities of another entity.	35.14
present value of a defined benefit obligation	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	39.8
presentation currency	The currency in which the financial statements are presented.	4.10
previous basis of accounting Applicable for periods beginning on or after January 1, 2028.	The basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSAS Standards.	33.8 (issued in 2025
principal market	The market with the greatest volume and level of activity for the asset or liability.	46.6
probable	Means more likely than not	44.9
prior period errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that: (a) Was available when financial statements for those periods were authorized for issue; and (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and	3.7

Term	Definition	Location
	fraud.	
property, plant, and equipment	Tangible items that: (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) Are expected to be used during more than one reporting period.	45.5
prospective application	Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are: (a) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change	3.7
protective rights	Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.	35.14
provision	A liability of uncertain timing or amount.	19.18
public sector combination	The bringing together of separate operations into one public sector entity.	40.5
public sector combination under common control	A public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.	40.5
purchased or originated credit-impaired financial asset	Credit-impaired on initial recognition.	41.9
purchaser	A resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption.	47.4
puttable instrument	A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.	28.9
qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.	5.5

Term	Definition	Location
qualifying insurance policy	An insurance policy[1] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy: (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: (i) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8
reclassification date	The first day of the first reporting period following the change in management model that results in an entity reclassifying financial assets.	41.9
recoverable amount	The higher of an asset's fair value less costs of disposal and its value in use.	44.9
recoverable amount (of an asset or a cash-generating unit)	The higher of an asset's or a cash-generating unit's fair value less costs of disposal and its value in use.	26.13
recoverable service amount Applicable up to periods beginning on or before December 31, 2027.	The higher of a non-cash-generating asset's fair value less costs to sell and its value in use.	21.14
recoverable service amount Applicable for periods beginning on or after January 1, 2028.	The higher of a non-cash-generating asset's fair value less costs to sell and its current operational value.	21.14
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.	41.9
related party	Parties are considered to be related if one party has the ability to (a) control	20.4

[1] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international standard dealing with insurance contracts).

Term	Definition	Location
	the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include: (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity; (b) Associates (see IPSAS 7, *Investments in Associates*); (c) Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual; (d) Key management personnel, and close members of the family of key management personnel; and (e) Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.	
related party transaction	A transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.	20.4
relevant rights	Activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.	35.14
remeasurements of the net defined benefit liability (asset)	Comprise: (a) Actuarial gains and losses; (b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).	39.8
removal rights	Rights to deprive the decision maker of its decision-making authority.	35.14
remuneration of key management personnel	Any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.	20.4
reporting date	The date of the last day of the reporting period to which the financial statements relate.	2.8

Term	Definition	Location
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.	31.16
residual value (of property, plant, and equipment or an intangible asset)	The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.	45.5
residual value guarantee	A guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.	43.5
resource provider	The party that provides a resource to the entity.	47.4
restrictions on transferred assets	Stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.	23.7
restructuring	A program that is planned and controlled by management, and materially changes either: (a) The scope of an entity's activities; or (b) The manner in which those activities are carried out.	19.18
resulting entity	The entity that is the result of two or more operations combining in an amalgamation	40.5
retirement benefit obligations	Are: (a) For defined benefit plans – the actuarial present value of promised retirement benefits; and (b) For defined contribution plans – the defined contribution obligations.	49.9
retirement benefit plans	Arrangements whereby an employer/sponsor provides benefits for participants on or after termination of service as employee (either in the form of an annual income and/or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the employer's/sponsor's practices.	49.9
retrospective application	Applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.	3.7
retrospective restatement	Correcting the recognition, measurement and disclosure of amounts of	3.7

Term	Definition	Location
	elements of financial statements as if a prior period error had never occurred.	
return on plan assets	The interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less: (a) Any costs of managing the plan assets; and (b) Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.	39.8
revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.	1.7
revenue from a structured entity	Includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.	38.7
right-of-use asset	An asset that represents a lessee's right to use an underlying asset for the lease term.	43.5
risk premium	The compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.	46.6
segment	A distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives and (b) making decisions about the future allocation of resources.	18.9
segment accounting policies	Accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.	18.27
segment assets	Are those operating assets that are employed by a segment in its operating activities, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments, or other revenue-producing assets. Segment assets do not include income tax or income tax-equivalent assets	18.27

Term	Definition	Location
	that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents. Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue. Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.	
segment expense	An expense resulting from the operating activities of a segment that is directly attributable to the segment, and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include: (a) Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature; (b) Losses on sales of investments or losses on extinguishment of debt, unless the segment's operations are primarily of a financial nature; (c) An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method; (d) Income tax or income tax-equivalent expense that is recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents; or (e) General administrative expenses, head office expenses, and other expenses that arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis. For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidated or entity financial statements.	18.27
segment liabilities	Those operating liabilities that result from the operating activities of a segment, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities. Segment liabilities do not include income tax or income tax equivalent	18.27

Term	Definition	Location
	liabilities that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.	
segment revenue	Revenue reported in the entity's statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or the provision of goods or services to other parties or from transactions with other segments of the same entity. Segment revenue does not include: (a) Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or (b) Gains on sales of investments or gains on extinguishment of debt, unless the segment's operations are primarily of a financial nature. Segment revenue includes an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, only if those items are included in consolidated or total entity revenue.	18.27
separate financial statements	Those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures*.	34.6
separate vehicle	A separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.	37.7
service concession arrangement	A binding arrangement between a grantor and an operator in which: (a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and (b) The operator is compensated for its services over the period of the service concession arrangement.	32.8
service concession asset	An asset used to provide public services in a service concession arrangement that: (a) Is provided by the operator which: (i) The operator constructs, develops, or acquires from a third party; or (ii) Is an existing asset of the operator; or	32.8

Term	Definition	Location
	(b) Is provided by the grantor which: (i) Is an existing asset of the grantor; or (ii) Is an upgrade to an existing asset of the grantor.	
service cost	Comprises: (a) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (b) Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and (c) Any gain or loss on settlement.	39.8
settlement	A transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.	39.8
short-term employee benefits	Employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.	39.8
short-term lease	A lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.	43.5
significant influence (relating to related party transactions)	The power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 36.	20.4
significant influence (relating to interests in other entities)	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.	36.8

Term	Definition	Location
social benefits	Are cash transfers provided to: (a) Specific individuals and/or households who meet eligibility criteria; (b) Mitigate the effect of social risks; and (c) Address the needs of society as a whole	42.5
social risks	Events or circumstances that: (a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and (b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.	42.5
spot exchange rate	The exchange rate for immediate delivery.	4.10
stand-alone consideration	The amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.	48.6
stand-alone value (of a good or service)	the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.	47.4
state plans	Plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.	39.8
stipulations on transferred assets	Terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.	23.7
structured entity	Is: (a) In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or (b) In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when	38.7

Term	Definition	Location
	any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.	
sublease	A transaction for which an underlying asset is released by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.	43.5
tangible natural resource held for conservation Applicable for periods beginning on or after January 1, 2028.	For the purposes of this Standard, is a naturally occurring tangible asset that is managed to prevent its degradation.	51.8
tax expenditures	Preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.	23.7, 47.4
taxable event	The event that the government, legislature, or other authority has determined will be subject to taxation.	23.7, 47.4
taxes	Economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.	23.7
taxes	Economic benefits or service potential compulsorily paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.	47.4
termination benefits	Employee benefits provided in exchange for the termination of an employee's employment as a result of either: (a) An entity's decision to terminate an employee's employment before the normal retirement date; or (b) An employee's decision to accept an offer of benefits in exchange for the termination of employment.	39.8
third-party beneficiary	An entity, household or individual who will benefit from a transaction made between other parties by receiving resources.	47.4
transaction consideration	For the purposes of this Standard, the amount of resources to which an entity expects to be entitled	47.4
transaction costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see [IPSAS 41] paragraph AG163). An incremental cost is one that would not have been incurred if	41.9

Term	Definition	Location
	the entity had not acquired, issued or disposed of the financial instrument.	
transaction costs	Incremental costs that are directly attributable to the acquisition, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.	46.6
transaction price	The consideration given to acquire, construct or develop an asset or received to assume a liability.	46.6
transfer	A transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.	47.4
transfer consideration	For the purposes of this Standard, represents the total amount of resources which an entity expects to transfer.	48.6
transfer expense	An expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return	48.6
transfer obligation	An entity's obligation in a binding arrangement to transfer resources in a specified manner.	48.6
transfer obligation liability	The liability recognized for the existence of one or more transfer obligations arising from a binding arrangement.	48.6
transfer provider	An entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.	48.6
transfer recipient	An entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity.	48.6
transfer right	An entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.	48.6
transfer right asset	The asset recognized for the existence of one or more transfer rights arising from a binding arrangement.	48.6
transfers	Inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.	23.7
transition period	The period during which a first-time adopter applies one or more of the	33.8

Term	Definition	Location
Applicable for periods beginning on or after January 1, 2028.	exemptions in this Standard before it complies with the accrual basis IPSAS Standards in full, and before it is able to make an explicit and unreserved statement of such compliance with IPSAS Standards.	(issued in 2025)
transitional IPSAS financial statements Applicable for periods beginning on or after January 1, 2028.	Are the financial statements prepared in accordance with this Standard where a first-time adopter cannot make an explicit and unreserved statement of compliance with accrual basis IPSAS Standards because it adopted one or more of the transitional exemptions in this Standard that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS Standards.	33.8 (issued in 2025)
transport costs	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.	46.6
underlying asset	An asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.	43.5
unearned finance revenue	The difference between: (a) The gross investment in the lease; and (b) The net investment in the lease.	43.5
unguaranteed residual value	That portion of the residual value of the underlying asset, the realization of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.	43.5
unit of account	The level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.	46.6
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.	46.6
useful life (of a non-cash-generating asset) Applicable up to periods beginning on or before December 31, 2027.	Either: (a) The period of time over which an asset is expected to be used by the entity; or (b) The number of production or similar units expected to be obtained from the asset by the entity.	21.14
useful life (of property, plant, and equipment or an intangible asset)	Either: (a) The period over which an asset is expected to be available for use by an entity; or (b) The number of production or similar units expected to be obtained from the asset by an entity.	45.5

Term	Definition	Location
value in use of a cash-generating asset	The present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life	26.13
value in use of a non-cash-generating asset Applicable up to periods beginning on or before December 31, 2027.	The present value of the asset's remaining service potential.	21.14
variable lease payments	The portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.	43.5
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.	49.9

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IPSAS Accounting Standards Issued as of January 31, 2026

Table A: List of IPSAS Accounting Standards effective as of January 1, 2026

The 2026 Handbook includes all IPSAS Accounting Standards. IPSAS Accounting Standards show the latest amended text. Where an IPSAS Accounting Standard includes paragraphs that are not yet effective these paragraphs are listed.

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 1, *Presentation of Financial Statements* (revised)	December 2006	January 1, 2008	7	Amended	*Definition of Material*	2025
			12A	New	*Definition of Material*	
			13	Amended	*Definition of Material*	2025
			13A	New	*Definition of Material*	
			88	Amended	IPSAS 51	2025
			92	Amended	IPSAS 51	2025
			107	Amended	IPSAS 51	2025
			134	Amended	IPSAS 51	2025
			153S	New	*Definition of Material*	
			153T	New	IPSAS 51	
			154	Amended	IPSAS 33 (2025)	2025
IPSAS 2, *Cash Flow Statements*	May 2000	July 1, 2001	64	Amended	IPSAS 33 (2025)	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (revised)	December 2006	January 1, 2008	7	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* *Definition of Material*	2025
			8	Deleted	*Definition of Material*	2025
			22	Amended	IPSAS 51	2025
			37	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			37A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			39	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			39A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			40	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			40A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			43	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			53	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			59G	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			59H	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			59I	New	*Definition of Material*	
			59J	New	IPSAS 51	
			60	Amended	IPSAS 33 (2025)	2025
			IG14–IG17	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			IG18–IG21	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (revised)	April 2008	January 1, 2010	72	Amended	IPSAS 33 (2025)	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 5, *Borrowing Costs*	May 2000	July 1, 2001	43	Amended	IPSAS 33 (2025)	2025
IPSAS 10, *Financial Reporting in Hyper-inflationary Economies*	July 2001	July 1, 2002	39	Amended	IPSAS 33 (2025)	2025
IPSAS 12, *Inventories* (revised)	December 2006	January 1, 2008	1	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			4	Amended	IPSAS 51	2025
			9	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			16	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			17	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			17A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			31	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			40	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			43	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			50A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			50C	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			50D	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			50E	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			51K	New	*Stripping Costs in the Production Phase of a Surface Mine*	
			51L	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			51M	New	IPSAS 51	
			52	Amended	IPSAS 33 (2025)	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			52A	New	*Stripping Costs in the Production Phase of a Surface Mine*	
			52B	New	*Stripping Costs in the Production Phase of a Surface Mine*	
			52C	New	*Stripping Costs in the Production Phase of a Surface Mine*	
			A1–A16	New	*Stripping Costs in the Production Phase of a Surface Mine*	
IPSAS 14, *Events After the Reporting Date* (revised)	December 2006	January 1, 2008	5	Amended	*Definition of Material*	2025
			30	Amended	*Definition of Material*	2025
			32H	New	*Definition of Material*	
			33	Amended	IPSAS 33 (2025)	2025
IPSAS 16, *Investment Property* (revised)	December 2006	January 1, 2008	6	Amended	IPSAS 51	2025
			89A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			89C	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			101M	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			101N	New	IPSAS 51	
			102	Amended	IPSAS 33 (2025)	2025
IPSAS 18, *Segment Reporting*	June 2002	July 1,2003	77	Amended	IPSAS 33 (2025)	2025
IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*	October 2002	January 1, 2004	18	Amended	*Definition of Material*	2025
			87	Amended	*Definition of Material*	2025
			111Q	New	*Definition of Material*	
			112	Amended	IPSAS 33 (2025)	2025
IPSAS 20, *Related Party Disclosures*	October 2002	January 1, 2004	4	Amended	*Definition of Material*	2025
			22	Amended	*Definition of Material*	2025
			42F	New	*Definition of Material*	
			43	Amended	IPSAS 33 (2025)	2025
IPSAS 21, *Impairment of Non-Cash-Generating Assets*	December 2004	January 1, 2006	10A`	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			14	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			35	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			36	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			37	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			38	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			39	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			39B	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			39C	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			40	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			41	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			42	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			43	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			44	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			45	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			46	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			47	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			48	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			49	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			50	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			67	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			77	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			82O	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			83	Amended	IPSAS 33 (2025)	2025
			IG8	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			IG9	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			IE1–IE16	Deleted	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			IE17–IE48	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
IPSAS 22, *Disclosure of Information About the General Government Sector*	December 2006	January 1, 2008	48	Amended	IPSAS 33 (2025)	2025
IPSAS 24, *Presentation of Budget Information in Financial Statements*	December 2006	January 1, 2009	55	Amended	IPSAS 33 (2025)	2025
IPSAS 26, *Impairment of Cash-Generating Assets*	February 2008	April 1, 2009	127	Amended	IPSAS 33 (2025)	2025
IPSAS 27, *Agriculture*	December 2009	April 1, 2011	3	Amended	IPSAS 51	2025
			46A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			46C	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			56K	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			56L	New	IPSAS 51	
			57	Amended	IPSAS 33 (2025)	2025
IPSAS 28, *Financial Instruments: Presentation*	January 2010	January 1, 2013	61	Amended	IPSAS 33 (2025)	2025
IPSAS 29, *Financial Instruments: Recognition and Measurement*	January 2010	January 1, 2013	126	Amended	IPSAS 33 (2025)	2025
IPSAS 30, *Financial Instruments: Disclosures*	January 2010	January 1, 2013	30A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			30C	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			52O	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			53	Amended	IPSAS 33 (2025)	2025
			IG15	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
IPSAS 31, *Intangible Assets*	January 2010	April 1, 2011	3	Amended	IPSAS 50	2024
			123A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			123C	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			132Q	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			133	Amended	IPSAS 33 (2025)	2025
			132P	New	IPSAS 50	
IPSAS 32, *Service Concession Arrangements: Grantor*	October 2011	January 1, 2014	37	Amended	IPSAS 33 (2025)	2025
IPSAS 33, *First-time Adoption of Accrual Basis IPSAS*	January 2015	January 1, 2017	62D	New	IPSAS 50	
			62E	New	IPSAS 50	
			62F	New	*Stripping Costs in the Production Phase of a Surface Mine*	
			62G	New	*Stripping Costs in the Production Phase of a Surface Mine*	
			62H	New	IPSAS 51	
			62I	New	IPSAS 51	
			154P	New	IPSAS 50	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			154Q	New	*Stripping Costs in the Production Phase of a Surface Mine*	
			154R	New	IPSAS 51	
IPSAS 34, *Separate Financial Statements*	January 2015	January 1, 2017	23A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			23C	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			32F	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			33	Amended	IPSAS 33 (2025)	2025
IPSAS 35, *Consolidated Financial Statements*	January 2015	January 1, 2017	80	Amended	IPSAS 33 (2025)	2025
IPSAS 36, *Investments in Associates and Joint Ventures*	January 2015	January 1, 2017	52	Amended	IPSAS 33 (2025)	2025
IPSAS 37, *Joint Arrangements*	January 2015	January 1, 2017	43	Amended	IPSAS 33 (2025)	2025
IPSAS 38, *Disclosures in Interests in Other Entities*	January 2015	January 1, 2017	57A	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			57C	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			61F	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			62	Amended	IPSAS 33 (2025)	2025
IPSAS 39, *Employee Benefits*	July 2016	January 1, 2018	177	Amended	IPSAS 33 (2025)	2025
IPSAS 40, *Public Sector Combinations*	January 2017	January 1, 2019	120	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			124	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			126C	Amended	IPSAS 33 (2025)	2025
			126I	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			AG91	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG94	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
IPSAS 41, *Financial Instruments*	August 2018	January 1, 2023	6	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			18A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			36	Amended	IPSAS 33 (2025)	2025
			156I	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			157	Amended	IPSAS 33 (2025)	2025
			AG124	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			AG130	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			AG135	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG136	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
IPSAS 42, *Social Benefits*	January 2019	January 1, 2023	IG5	Amended	*Definition of Material*	2025
IPSAS 43, *Leases*	January 2022	January 1, 2025	3	Amended	IPSAS 50	2024
			18B	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			18C	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			18D	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			26A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			26B	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			26C	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			29A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			54	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			59	Amended	IPSAS 33 (2025)	2025
			64A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			71A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			79	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			81	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			81A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			96A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			96B	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			97A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			97B	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			103G	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			104	Amended	IPSAS 33 (2025)	2025
			109	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			117A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			117B	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			117C	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			117D	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			117E	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			117F	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			118	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			120	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			AG32A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			AG60	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			AG61	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			AG62	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			IG1	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			IG2	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			IE2A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			IE2B	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			IE5	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	2024
			IE10A	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
			IE11	Amended	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	2024

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			IE13	New	*Concessionary Leases and Other Arrangements Conveying Rights over Assets*	
IPSAS 44, *Non-Current Assets Held for Sale and Discontinued Operations*	May 2022	January 1, 2025	59	Amended	IPSAS 33 (2025)	
			85B	New	IPSAS 50	
IPSAS 45, *Property, Plant, and Equipment*	May 2023	January 1, 2025	3	Amended	IPSAS 51	2025
			79	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			81	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			85D	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			85E	New	IPSAS 51	2025
			86	Amended	IPSAS 33 (2025)	2025
			AG2	Amended	IPSAS 51	2025
			IG12	Amended	*Definition of Material*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 46, *Measurement*	May 2023	January 1, 2025	4	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			7	Amended	IPSAS 33 (2025)	2025
			23	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			26	Amended	IPSAS 33 (2025)	2025
			56A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			56B	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			56C	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	
			57	Amended	IPSAS 33 (2025)	2025
			B4	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			B5	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			B6	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			B9	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			A.2.	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			B.4.	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			D.7.	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
			B13	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*	2025
IPSAS 47, *Revenue*	May 2023	January 1, 2026	195	Amended	IPSAS 33 (2025)	2025
IPSAS 48, *Transfer Expenses*	May 2023	January 1, 2026	63	Amended	IPSAS 33 (2025)	2025
IPSAS 49, *Retirement Benefit Plans*	November 2023	January 1, 2026	26	Amended	IPSAS 33 (2025)	2025

Table B: List of IPSAS Accounting Standards not yet Effective as of January 1, 2026

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Other IPSAS Accounting Standards Affected
IPSAS 33, *First-time Adoption of Accrual Basis IPSAS Standards*	November 2025	January 1, 2028	IPSAS 1 IPSAS 2 IPSAS 3 IPSAS 4 IPSAS 5 IPSAS 10 IPSAS 11 IPSAS 12 IPSAS 14 IPSAS 16 IPSAS 18 IPSAS 19 IPSAS 20 IPSAS 21 IPSAS 22 IPSAS 24 IPSAS 26 IPSAS 27 IPSAS 28 IPSAS 29 IPSAS 30 IPSAS 31 IPSAS 32 IPSAS 34 IPSAS 35

			IPSAS 36 IPSAS 37 IPSAS 38 IPSAS 39 IPSAS 40 IPSAS 41 IPSAS 42 IPSAS 43 IPSAS 44 IPSAS 45 IPSAS 46 IPSAS 47 IPSAS 48 IPSAS 49 IPSAS 50
IPSAS 50, *Exploration for and Evaluation of Mineral Resources*	November 2024	January 1, 2027	IPSAS 31 IPSAS 33 IPSAS 45
IPSAS 51, *Tangible Natural Resources Held for Conservation*	January 2026	January 1, 2028	IPSAS 1 IPSAS 3 IPSAS 12 IPSAS 16 IPSAS 27 IPSAS 33 IPSAS 45

Table C: List of IPSAS Accounting Standards no Longer Effective as of January 1, 2026

This Table is a list of those IPSAS Accounting Standards that are no longer applicable as they have been superseded and removed.

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Reason and Date No Longer Effective
IPSAS 6, *Consolidated and Separate Financial Statements* (revised)	December 2006	January 1, 2008	IPSAS 6 is superseded by IPSAS 34–35 from periods beginning on or after January 1, 2017.
IPSAS 7, *Investments in Associates* (revised)	December 2006	January 1, 2008	IPSAS 7 is superseded by IPSAS 36 from periods beginning on or after January 1, 2017.
IPSAS 8, *Interests in Joint Ventures* (revised)	December 2006	January 1, 2008	IPSAS 8 is superseded by IPSAS 37 from periods beginning on or after January 1, 2017.
IPSAS 9, *Revenue from Exchange Transactions*	July 2001	July 1, 2002	IPSAS 9 is superseded by IPSAS 47 from periods beginning on or after January 1, 2026.
IPSAS 11, *Construction Contracts*	July 2001	July 1, 2002	IPSAS 11 is superseded by IPSAS 47 from periods beginning on or after January 1, 2026.
IPSAS 13, *Leases*	December 2001	January 1, 2008	IPSAS 13 is superseded by IPSAS 43 from periods beginning on or after January 1, 2025.
IPSAS 15, *Financial Instruments: Disclosure and Presentation*	December 2001	January 1, 2003	IPSAS 15 is superseded by IPSAS 28–30 from periods beginning on or after January 1, 2013.
IPSAS 17, *Property, Plant, and Equipment*	December 2001	January 1, 2008	IPSAS 17 is superseded by IPSAS 45 from periods beginning on or after January 1, 2025.
IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*	December 2006	June 30, 2008	IPSAS 23 is superseded by IPSAS 47 from periods beginning on or after January 1, 2026.

IPSAS Accounting Standards	Issued	Original Effective Date On or After	Reason and Date No Longer Effective
IPSAS 25, *Employee Benefits*	February 2008	January 1, 2011	IPSAS 25 is superseded by IPSAS 39 from periods beginning on or after January 1, 2018.

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IPSASB SRS 1, *CLIMATE-RELATED DISCLOSURES*

Acknowledgment

This IPSASB SRS Standard is drawn primarily from IFRS® Sustainability Disclosure Standard S2 *Climate-related Disclosures* and draws upon some of the principles from IFRS® Sustainability Disclosure Standard S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, published by the International Sustainability Standards Board (ISSB®). Extracts from IFRS S2 and IFRS S1 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS®) Foundation.

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IPSASB SRS 1, *CLIMATE-RELATED DISCLOSURES*

History of IPSASB SRS Standard

IPSASB SRS 1, *Climate-related Disclosures* was issued in January 2026.

IPSASB SRS 1, *CLIMATE-RELATED DISCLOSURES*

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IPSASB SRS 1, *Climate-related Disclosures*, is set out in paragraphs 1–43. All the paragraphs have equal authority. IPSASB SRS 1 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

Objective

1. **The objective of this Standard is to provide principles for an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports for accountability and decision-making purposes.**

2. This Standard requires an entity to disclose material information (see paragraph B8–B10 in Appendix B[1]) about the climate-related risks and opportunities that could reasonably be expected to affect the long-term fiscal sustainability[2] of an entity, including the long-term sustainability of the services and/or programs it delivers (for the purposes of this Standard, these are collectively referred to as "climate-related risks and opportunities that could reasonably be expected to affect an entity's long-term fiscal sustainability").

Scope

3. An entity shall apply this Standard in reporting on:

   (a) **Climate-related risks to which an entity is exposed, which are:**

      (i) **Climate-related physical risks; and**

      (ii) **Climate-related transition risks; and**

   (b) **Climate-related opportunities available to the entity.**

4. Climate-related risks and opportunities that could not reasonably be expected to affect the long-term fiscal sustainability of an entity are outside the scope of this Standard.

5. An entity may apply this Standard irrespective of whether the entity's related general purpose financial statements (referred to as "financial statements") are prepared in accordance with International Public Sector Accounting Standards (IPSAS Standards) or other generally accepted accounting principles or practices (GAAP)[3].

Definitions

6. **The following terms are used in this Standard with the meanings specified:**

   Carbon credit is an emissions unit that is issued by a carbon crediting program and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialized, issued, tracked and cancelled by means of an electronic registry.

   Climate resilience is the capacity of an entity to adjust to climate-related changes, developments or uncertainties. Climate resilience involves the capacity to manage climate-related risks and benefit from climate-related opportunities, including the ability to respond and adapt to climate-related transition risks and climate-related physical risks. An entity's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties.

   Climate-related physical risks are risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic

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1 Appendix B: General Requirements for Climate-Related Disclosures sets out key concepts used in this Standard.

2 Long-term fiscal sustainability is defined in Recommended Practice Guidance (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* as "The ability of an entity to meet service delivery and financial commitments, both now and in the future".

3 In the context of this Standard, "GAAP" refers to the relevant international or national accounting standards.

patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity.

Climate-related risks refer to the potential negative effects of climate change on an entity. These risks are categorized into climate-related physical risks and climate-related transition risks.

Climate-related opportunities refer to the potential positive effects of climate change on an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity.

Climate-related transition plan is an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.

Climate-related transition risks are risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks.

CO_2 equivalent is the universal unit of measurement to indicate the global warming potential of each greenhouse gas, expressed in terms of the global warming potential of one unit of carbon dioxide. This unit is used to evaluate releasing (or avoiding releasing) different greenhouse gases against a common basis.

Financed emissions are the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an entity to the investee or counterparty. These emissions are part of Scope 3 Category 15 (investments) as defined in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

Global warming potential is a factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given greenhouse gas relative to one unit of CO_2.

Greenhouse gases are the seven greenhouse gases listed in the Kyoto Protocol— carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs) and sulfur hexafluoride (SF_6).

Indirect greenhouse gas emissions are emissions that are a consequence of the activities of an entity, but occur at sources owned or controlled by another entity.

Internal carbon price is a price used by an entity to assess the financial implications of changes to investment, production and consumption patterns, and of potential technological progress and future emissions abatement costs. An entity can use internal carbon prices for a range of applications. Two types of internal carbon prices that an entity commonly uses are:

(a) **A shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used to understand the economic implications or trade-offs for such things as risk impacts, new investments, the net present value of projects, and the cost and benefits of various initiatives; and**

(b) **An internal tax or fee, which is a carbon price charged to an operational activity, or other operating unit based on its greenhouse gas emissions (these internal taxes or fees are similar to intra-group charges).**

Latest international agreement on climate change is the most recent agreement by central governments and states to combat climate change, setting norms and targets for a reduction in greenhouse gases.

Long-term fiscal sustainability is the ability of an entity to meet service delivery and financial commitments, both now and in the future.

An operational model is an entity's system of transforming inputs through its activities into outputs and outcomes that aims to fulfill the entity's objectives.

Scope 1 greenhouse gas emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.

Scope 2 greenhouse gas emissions are indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions are indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

Scope 3 categories are 15 categories of Scope 3 greenhouse gas emissions—as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011):

(1) **Purchased goods and services;**

(2) **Capital goods;**

(3) **Fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions;**

(4) **Upstream transportation and distribution;**

(5) **Waste generated in operations;**

(6) **Business travel;**

(7) **Employee commuting;**

(8) **Upstream leased assets;**

(9) **Downstream transportation and distribution;**

(10) **Processing of sold products;**

(11) **Use of sold products;**

(12) **End-of-life treatment of sold products;**

(13) **Downstream leased assets;**

(14) **Franchises; and**

(15) **Investments.**

A reporting entity's value chain refers to the full range of interactions, resources and relationships related to a reporting entity's operational model and the external environment in which it operates, including other public sector entities. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its goods or provide services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the

entity's operations, such as human resources; those along its supply and distribution channels, such as materials and service sourcing, and service and/or product delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Terms used in this Standard with the meanings specified in IPSAS Standards are set out in Appendix D: Terms in this IPSASB SRS Standard Defined in IPSAS Standards.

Governance

7. **The objective of climate-related disclosures on governance is to enable primary users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.**

8. To achieve this objective, an entity shall disclose information about:

   (a) The governing body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

      (i) How responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

      (ii) How the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities;

      (iii) How and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;

      (iv) How the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major activities, and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

      (v) How the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraphs 32–35).

   (b) Management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:

      (i) Whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

      (ii) Whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

Strategy

9. **The objective of climate-related disclosures on strategy is to enable primary users of general purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities.**

10. Specifically, an entity shall disclose information about its strategy for managing climate-related risks and opportunities, including:

(a) The climate-related risks and opportunities that could reasonably be expected to affect an entity's long-term fiscal sustainability (see paragraph 11);

(b) The current and anticipated effects of those climate-related risks and opportunities on the entity's operational model and value chain (see paragraph 13);

(c) The effects of those climate-related risks and opportunities on the entity's strategy and decision making, including information about its climate-related transition plan (see paragraph 14);

(d) The effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning (see paragraphs 15–21); and

(e) The climate resilience of the entity's strategy and its operational model to climate-related changes, developments, and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities (see paragraphs 22–23).

Climate-Related Risks and Opportunities

11. An entity shall disclose information that enables primary users of general purpose financial reports to understand the entity's climate-related risks and opportunities that could reasonably be expected to affect the entity's long-term fiscal sustainability. Specifically, the entity shall:

(a) Describe climate-related risks and opportunities that could reasonably be expected to affect the entity's long-term fiscal sustainability;

(b) Explain, for each climate-related risk the entity has identified, whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk;

(c) Specify, for each climate-related risk and opportunity the entity has identified, over which time horizons—short, medium or long term—the effects of each climate-related risk and opportunity could reasonably be expected to occur; and

(d) Explain how the entity defines "short term", "medium term" and "long term" and how these definitions are linked to the planning horizons used by the entity for strategic decision making (see paragraph AG21).

12. In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's long-term fiscal sustainability, the entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions.

Operational Model and Value Chain

13. An entity shall disclose information that enables primary users of general purpose financial reports to understand the current and anticipated effects of climate-related risks and opportunities on the entity's operational model and value chain. Specifically, the entity shall disclose:

(a) A description of the current and anticipated effects of climate-related risks and opportunities on the entity's operational model and value chain; and

(b) A description of where in the entity's operational model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, types of assets, types of public sector entities or private sector entities, or groups of individuals).

Strategy and Decision Making

14. An entity shall disclose information that enables primary users of general purpose financial reports to understand the effects of climate-related risks and opportunities on its strategy and decision making. Specifically, the entity shall disclose:

    (a) Information about how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision making, including how the entity plans to achieve any climate-related targets it has set and any targets it is required to meet by law or regulation. Specifically, the entity shall disclose information about:

        (i) Current and anticipated changes to the entity's operational model, including its resource allocation, to address climate-related risks and opportunities (for example, these changes could include plans to manage or decommission carbon-, energy- or water-intensive operations; resource allocations resulting from demand or supply-chain changes; resource allocations arising from operations development through capital expenditure or additional expenditure on research and development; and acquisitions or divestments);

        (ii) Current and anticipated direct mitigation and adaptation efforts (for example, through changes in operational processes or equipment, relocation of activities, workforce adjustments, and changes in services);

        (iii) Current and anticipated indirect mitigation and adaptation efforts (for example, through working with service recipients and supply chains);

        (iv) Any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies; and

        (v) How the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets, described in accordance with paragraphs 32–35;

    (b) Information about how the entity is resourcing, and plans to resource, the activities disclosed in accordance with paragraph 14(a); and

    (c) Quantitative and qualitative information about the progress of plans disclosed in previous reporting periods in accordance with paragraph 14(a).

Financial Position, Financial Performance and Cash Flows

15. An entity shall disclose information that enables primary users of general purpose financial reports to understand:

    (a) The effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and

    (b) The anticipated effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning (anticipated financial effects).

16. Specifically, an entity shall disclose quantitative and qualitative information about:

    (a) How climate-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;

(b) The climate-related risks and opportunities identified in paragraph 16(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) How the entity expects its financial position to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities, taking into consideration:

(i) Its investment and disposal plans (for example, plans for capital expenditure, major infrastructure developments, acquisitions and divestments, transformation of operations, innovation, new public-private partnerships, and asset retirements), including plans the entity is not contractually committed to; and

(ii) Its planned sources of funding to implement its strategy (see paragraph 16(d)); and

(d) How the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities (for example, increased revenue from tax legislation aligned with a lower-carbon economy; or costs arising from physical damage to assets from climate events).

17. In providing quantitative information, an entity may disclose a single amount or a range.

18. In preparing disclosures about the anticipated financial effects of a climate-related risk or opportunity an entity shall:

(a) Use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort; and

(b) Use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

19. An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if the entity determines that:

(a) Those effects are not separately identifiable; or

(b) The level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

20. In addition, an entity need not provide quantitative information about the anticipated financial effects of a climate-related risk or opportunity if the entity does not have the skills, capabilities or resources to provide that quantitative information.

21. If an entity determines that it need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity applying the criteria set out in paragraphs 19–20, the entity shall:

(a) Explain why it has not provided quantitative information;

(b) Provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that climate-related risk or opportunity; and

(c) Provide quantitative information about the combined financial effects of that climate-related risk or opportunity with other climate-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

Climate Resilience

22. An entity shall disclose information that enables primary users of general purpose financial reports to understand the resilience of the entity's strategy and operational model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. The entity shall use climate-related scenario analysis to assess climate resilience using an approach that is commensurate with the entity's circumstances (see paragraphs AG23–AG44). In providing quantitative information, the entity may disclose a single amount or a range. Specifically, the entity shall disclose:

    (a) The entity's assessment of the climate resilience of its strategy and operational model as at the reporting date, which shall enable primary users of general purpose financial reports to understand:

        (i) The implications, if any, of the entity's assessment for its strategy and operational model, including how the entity would need to respond to the effects identified in the climate-related scenario analysis;

        (ii) The significant areas of uncertainty considered in the entity's assessment of its climate resilience;

        (iii) The entity's capacity to adjust or adapt its strategy and operational model to climate change over the short, medium and long term, including:

            a. The availability of, and flexibility in, the entity's existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate-related opportunities;

            b. The entity's ability to redeploy, repurpose, upgrade or decommission existing assets; and

            c. The effect of the entity's current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience; and

    (b) How and when the climate-related scenario analysis was carried out, including:

        (i) Information about the inputs the entity used, including:

            a. Which climate-related scenarios the entity used for the analysis and the sources of those scenarios;

            b. Whether the analysis included a diverse range of climate-related scenarios;

            c. Whether the climate-related scenarios used for the analysis are associated with climate-related transition risks or climate-related physical risks;

            d. Whether the entity used, among its scenarios, a climate-related scenario aligned with the latest international agreement on climate change;

            e. Why the entity decided that its chosen climate-related scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties;

            f. The time horizons the entity used in the analysis; and

            g. What scope of operations the entity used in the analysis (for example, the operational locations and services included in the analysis);

        (ii) The key assumptions the entity made in the analysis, including assumptions about:

            a. Climate-related policies in the jurisdictions in which the entity operates;

            b. Macroeconomic trends;

c. National- or regional-level variables (for example, local weather patterns, demographics, land use, infrastructure and availability of natural resources);

d. Energy usage and mix; and

e. Developments in technology; and

(iii) The reporting period in which the climate-related scenario analysis was carried out (see paragraph AG25–AG44).

23. In preparing disclosures to meet the requirements in paragraphs 13–22, an entity may refer to and consider the applicability of peer metrics associated with related disclosure topics.

Risk Management

24. **The objective of climate-related disclosures on risk management is to enable primary users of general purpose financial reports to understand an entity's processes to identify, assess, prioritize and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process.**

25. To achieve this objective, an entity shall disclose information about:

(a) The processes and related risk management policies the entity uses to identify, assess, prioritize and monitor climate-related risks, including information about:

(i) The inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);

(ii) Whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risks;

(iii) How the entity assesses the nature, likelihood, magnitude and timing of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);

(iv) Whether and how the entity prioritizes climate-related risks relative to other types of risk;

(v) How the entity monitors climate-related risks; and

(vi) Whether and how the entity has changed the processes it uses compared with the previous reporting period.

(b) The processes the entity uses to identify, assess, prioritize and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities; and

(c) The extent to which, and how, the processes for identifying, assessing, prioritizing and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process.

Metrics and Targets

26. **The objective of climate-related disclosures on metrics and targets is to enable primary users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.**

27. To achieve this objective:

(a) An entity shall disclose:

(i) Information relevant to the metric categories in paragraphs 28–30;

(ii) Targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governing body or management to measure progress towards these targets (see paragraphs 32–36); and

(b) In addition, an entity may disclose peer metrics that are associated with particular operational models, activities or other common features that are similar to other entities such as categories of functions of government (see paragraph 31).

Climate-Related Metrics

28. An entity shall disclose information relevant to the following metric categories of:

(a) Greenhouse gases—the entity shall:

(i) Disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tons of CO_2 equivalent (see paragraphs AG46–AG49), classified as:

a. Scope 1 greenhouse gas emissions;

b. Scope 2 greenhouse gas emissions; and

c. Scope 3 greenhouse gas emissions;

(ii) Measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless a different method for measuring its greenhouse gas emissions is determined to better meet primary user information needs or is required by a jurisdictional authority (see paragraphs AG50–AG54);

(iii) Disclose the approach it uses to measure its greenhouse gas emissions (see paragraphs AG55–AG56) including:

a. The methodology, measurement approach, inputs and assumptions the entity uses to measure its greenhouse gas emissions;

b. The reason why the entity has chosen the methodology, measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and

c. Any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes;

(iv) For Scope 1 and Scope 2 greenhouse gas emissions disclosed in accordance with paragraphs 28(a)(i)a–b, disaggregate emissions between:

a. The consolidated accounting group (for example, for an entity applying IPSAS Standards, this group would comprise the parent and its controlled entities); and

b. Other investees excluded from paragraph 28(a)(iv)a (for example, for an entity applying IPSAS Standards, these investees would include associates, joint ventures and unconsolidated controlled entities);

(v) For Scope 2 greenhouse gas emissions disclosed in accordance with paragraph b, disclose its location-based Scope 2 greenhouse gas emissions, and provide information about any contractual instruments that is necessary to inform primary users' understanding of the entity's Scope 2 greenhouse gas emissions (see paragraphs AG57–AG58); and

(vi) For Scope 3 greenhouse gas emissions disclosed in accordance with paragraph 28(a)(i)c, and with reference to paragraphs AG59–AG82, disclose:

a. The categories included within the entity's measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011); and

b. Additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (financed emissions), if the entity's activities include financial services and investing (see paragraphs AG83–AG84);

(b) Climate-related transition risks—the amount and percentage of operating activities or assets vulnerable to climate-related transition risks;

(c) Climate-related physical risks—the amount and percentage of operating activities or assets vulnerable to climate-related physical risks;

(d) Climate-related opportunities—the amount and percentage of operating activities or assets aligned with climate-related opportunities;

(e) Capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;

(f) Internal carbon prices—the entity shall disclose, with reference to paragraphs AG87–AG88:

(i) An explanation of whether and how the entity is applying a carbon price in decision making (for example, in procurement, investment decisions, transfer pricing and scenario analysis);

(ii) A description of how the entity determines the carbon price; and

(iii) The price for each metric ton of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emissions; and

(g) Remuneration—if any climate-related considerations are directly factored into remuneration of key management personnel, the entity shall disclose:

(i) A description of how the climate-related considerations are factored into remuneration of key management personnel (see also paragraph 8(a)(v)); and

(ii) The percentage of remuneration to key management personnel recognized in the current period that is linked to climate-related considerations.

29. In preparing disclosures to meet the requirements in paragraphs 28(b)–(d), an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

30. In preparing disclosures to meet the requirements in paragraphs 28(b)–(g), an entity shall refer to paragraphs AG85–AG88.

31. An entity may disclose peer metrics that are associated with one or more particular operational models, activities or other common features that are similar to other entities such as categories of functions of government. In determining the peer metrics that the entity discloses, the entity may consider the applicability of existing industry-based metrics such as those associated with disclosure topics such as the SASB Standards or the Global Reporting Initiative (GRI) Sector Standards.

Climate-Related Targets

32. An entity shall disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. For each target, the entity shall disclose:

    (a) The metric used to set the target (see paragraphs AG89–AG90);

    (b) The objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives);

    (c) The scope to which the target applies (for example, whether the target applies to the entirety of the entity or only a part of the entity, such as a specific operating unit or specific geographical region);

    (d) The period over which the target applies;

    (e) The base period from which progress is measured;

    (f) Any milestones and interim targets;

    (g) If the target is quantitative, whether it is an absolute target or an intensity target; and

    (h) How the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target.

33. An entity shall disclose information about its approach to setting and reviewing each target, and how it monitors progress against each target, including:

    (a) Whether the target and the methodology for setting the target have been validated by a third party;

    (b) The entity's processes for reviewing the target;

    (c) The metrics used to monitor progress towards reaching the target; and

    (d) Any revisions to the target and an explanation for those revisions.

34. An entity shall disclose information about its performance against each climate-related target and an analysis of trends or changes in the entity's performance.

35. For each greenhouse gas emissions target disclosed in accordance with paragraphs 32–34, an entity shall disclose:

    (a) Which greenhouse gases are covered by the target;

    (b) Whether Scope 1, Scope 2 or Scope 3 greenhouse gas emissions are covered by the target;

    (c) Whether the target is a gross greenhouse gas emissions target or net greenhouse gas emissions target. If the entity discloses a net greenhouse gas emissions target, the entity is also required to separately disclose its associated gross greenhouse gas emissions target (see paragraphs AG91–AG92);

    (d) Whether the target was derived using a sectoral decarbonization approach; and

    (e) The entity's planned use of carbon credits, if any, to offset greenhouse gas emissions to achieve any net greenhouse gas emissions target. In explaining its planned use of carbon credits the entity shall disclose information including, and with reference to paragraphs AG93–AG94:

        (i) The extent to which, and how, achieving any net greenhouse gas emissions target relies on the use of carbon credits;

        (ii) Which third-party scheme(s) will verify or certify the carbon credits, if any;

(iii) The type of carbon credit, including whether the underlying offset will be nature-based or based on technological carbon removals, and whether the underlying offset is achieved through carbon reduction or removal; and

(iv) Any other factors necessary for primary users of general purpose financial reports to understand the credibility and integrity of the carbon credits the entity plans to use (for example, assumptions regarding the permanence of the carbon offset).

36. In identifying and disclosing the metrics used to set and monitor progress towards reaching a target described in paragraphs 32–33, an entity may refer to and consider the applicability of peer metrics (see paragraph 31), or metrics that otherwise satisfy the requirements in this Standard.

Effective Date and Transition

Effective Date

37. **An entity shall apply this Standard for annual reporting periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.**

38. **For the purposes of applying paragraphs 39–43, the date of adoption is the beginning of the annual reporting period in which an entity first applies this Standard.**

Transition

39. **An entity is not required to provide the disclosures specified in this Standard for any period before the date of adoption. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies this Standard.**

40. **In the first annual reporting period in which an entity applies this Standard, the entity is permitted to report its climate-related disclosures after it publishes its related financial statements, within nine months of the end of the annual reporting period in which the entity first applies this Standard.**

41. The entity is not required to disclose its Scope 3 greenhouse gas emissions within the first three years in which it applies this Standard (see paragraph 28(a)).

42. An entity may elect an earlier date of adoption without a transition period.

43. If an entity uses the relief in paragraph 41, the entity is permitted to continue to use that relief for the purposes of presenting that information as comparative information in subsequent reporting periods.

Appendix A: Application Guidance

This Appendix is an integral part of IPSASB SRS 1.

Scope and Definitions (paragraphs 3–6)

AG1. Public sector entities perform a broad range of activities in the public interest, which could include:

(a) Service design and delivery;

(b) Compliance and enforcement; and

(c) Monitoring and evaluation.

AG2. Many public sector entities have their activities, objectives/mandates and authority prescribed by statute. This limits the entity's own ability to alter its activities, objectives and/or mandate, and may require coordination with other public sector entities and decision makers to achieve the intended change.

AG3. In applying this Standard, an entity shall consider the activities in its operational model.

Climate-Related Risks and Opportunities

AG4. Climate-related risks and opportunities can materialize through any of the activities of a public sector entity. Disclosures about climate-related risks and opportunities should be guided by the information needs of its primary users which would reflect the entity's context, its public interest mandate and responsibilities (see paragraphs B.AG1–B.AG3).

AG5. Identification of climate-related risks and opportunities informs an entity's response to such risks and opportunities in the context of ensuring its long-term fiscal sustainability. Long-term fiscal sustainability includes an entity's continued ability to fulfill its objectives and is dependent on the capacity and vulnerability of its activities, revenue and debts.

AG6. The climate-related risks that an entity may face include climate-related physical risks and transition risks associated with the transition to a lower-carbon economy. Climate-related physical risks can be:

(a) Acute physical risks – driven by events such as storms, precipitation or temperatures; or

(b) Chronic physical risks – resulting from longer-term factors such as an increase in mean temperatures, shifts in precipitation patterns or rising sea levels. Chronic risks could also have longer-term consequences for entities.

AG7. Climate-related transition risks are associated with policy, legal, technology and market changes resulting from efforts to limit global warming and the move to a lower-carbon economy.

AG8. An entity may pursue adaptation responses, such as investing in infrastructure, to address climate-related physical risks; and may pursue mitigation responses, such as adopting new technologies to reduce its greenhouse gas emissions, to address climate-related transition risks.

AG9. An entity may also pursue climate-related opportunities, such as sourcing renewable energy procurement that lowers energy costs and secures a stable, low-carbon supply. Climate-related risks and opportunities are distinct but not always mutually exclusive.

AG10. An entity's climate-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy, and the natural environment throughout the entity's value chain. These interactions, which can be direct and indirect – result from an entity's operations in pursuit of its objectives and from the external environment in which the entity operates. These interactions take place within an interdependent system in which an entity both depends on resources and relationships throughout its value

chain and affects those resources and relationships through its activities—contributing to the preservation, regeneration and development of those resources and relationships or to their degradation and depletion. These dependencies and impacts may give rise to climate-related risks and opportunities that could reasonably be expected to affect an entity's long-term fiscal sustainability.

AG11. Resources and relationships that an entity depends on and affects by its activities and outputs can take various forms, such as natural, manufactured, intellectual, human, social or financial. They can be internal—such as the entity's workforce, its know-how or its organizational processes—or they can be external—such as funding and services the entity needs to access or the relationships it has with resource providers, distributors and beneficiaries. Furthermore, resources and relationships include, but are not limited to, the resources and relationships recognized as assets in the entity's financial statements.

AG12. Due to the interconnected nature of resources and relationships in the public sector, an entity often:

(a) Depends on other public sector entities, for example for funding and policy design, implementation and/or monitoring; or

(b) Is affected by the activities of other public sector entities, such as being delegated responsibility for implementing programs and achieving targets set by higher levels of government.

AG13. In applying this Standard and understanding its climate-related risks and opportunities, it is important that an entity consider other entities along its value chain, which may give rise to climate-related risks and opportunities for the entity itself (see paragraphs B.AG4–B.AG14). For example, a public transport authority with a target to reduce greenhouse gas emissions along its value chain should consider the climate-related strategy of its service providers, as failure to meet its target could lead to enhanced regulatory and reputational risk.

Governance (paragraphs 7–8)

AG14. Public sector governance structures vary considerably between and across jurisdictions. However, all are designed to provide oversight of an entity's operations. For some entities, their climate-related strategy may be driven by another public sector entity such as higher levels of governments or ministries. In the public sector, it is generally rare for governance to be the responsibility of a single individual. An entity shall disclose its governance arrangements as required in paragraph 8(a).

AG15. If no group(s) or individual(s) has responsibility for oversight of particular climate-related risks and opportunities, then this fact should be disclosed.

Strategy (paragraph 9–23)

AG16. In the public sector, climate-related strategies may be set, in many cases, by higher levels of government at regional or national levels to contribute to meeting the requirements of the latest international agreement on climate change.

AG17. Such strategies may be implemented by multiple entities. When entities need to comply with policies set by higher levels of government, they will need to incorporate these into their own strategies.

AG18. Entities may also develop their own strategies to manage climate-related risks to service delivery and/or benefits from climate-related opportunities that support the entity's mandate and service objectives. An entity's strategy will vary depending on its role and responsibilities. For example:

(a) A police force may have mitigation plans to reduce greenhouse gas emission by replacing its fleet of vehicles with electric vehicles; and

(b) A local government may build infrastructure to address rising sea levels as part of its climate adaptation efforts.

AG19. Strategy and decision making in the public sector may also be affected by changes in governments and/or other policies. Therefore, medium and long-term risk management will require clearly articulated strategies that can be flexed as circumstances change.

AG20. Public sector entities' resources are predominantly provided by taxpayers, transfers from different levels of government or external lenders such as bond holders. An entity's disclosures in accordance with paragraph 10(d) shall enable primary users of general purpose financial reports to understand the capacity and financial planning of an entity to continue to fund its activities and to meet its operational objectives, climate-related strategy and targets, including its sources of funding and the extent to which it is dependent on each.

Climate-Related Risks and Opportunities

AG21. Short-, medium- and long-term time horizons can vary between entities and depend on many factors, including the planning horizons typically used for strategic decision making and capital allocation plans, and the time horizons over which primary users of general purpose financial reports conduct their assessments.

Financial Position, Financial Performance and Cash Flows

AG22. The current and anticipated effects of climate-related risks and opportunities include those related to:

(a) Climate-related physical risks which could carry financial implications for an entity, such as costs resulting from direct damage to public assets and infrastructure, indirect effects of supply-chain disruption, or rising sea levels for coastal communities. The entity's long-term fiscal sustainability could also be affected by factors such as changes in water availability, sourcing and quality, or extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety. Climate-related physical risks can also have economic or social implications, such as the disruption of services as a result of extreme weather events;

(b) Climate-related transition risks which could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related policies. Climate-related transition risks can also have economic or social implications, such as shifting needs of service recipients and the development and deployment of new technology; and

(c) Climate-related opportunities which could carry financial implications for an entity may include increased efficiency in the use of resources, the adoption of clean energy sources or new technologies, and the development of climate adaptation solutions. For example, a transport authority may achieve long-term cost savings by replacing its fleet with electric buses. Climate-related opportunities can also have economic or social implications, such as the creation of new jobs associated with renewable energy infrastructure.

Climate Resilience

AG23. Paragraph 22 requires an entity to use climate-related scenario analysis to assess its climate resilience, using an approach that is commensurate with its circumstances. The entity is required to use an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. Paragraphs AG24–AG44 provide guidance on how an entity uses scenario analysis to assess the entity's climate resilience. Specifically:

(a) Paragraphs AG24–AG31 set out the factors the entity shall consider when assessing its circumstances;

(b) Paragraphs AG32–AG41 set out the factors the entity shall consider when determining an appropriate approach to climate-related scenario analysis; and

(c) Paragraphs AG42–AG44 set out additional factors for the entity to consider when determining its approach to climate-related scenario analysis over time.

Assessing the Circumstances

AG24. An entity shall use an approach to climate-related scenario analysis that is commensurate with its circumstances as at the time the entity carries out its climate-related scenario analysis (see paragraph AG25). To assess its circumstances the entity shall consider:

(a) The entity's exposure to climate-related risks and opportunities (see paragraphs AG26–AG27); and

(b) The skills, capabilities and resources available to the entity for the climate-related scenario analysis (see paragraphs AG28–AG31).

AG25. An entity shall assess its circumstances each time it carries out its climate-related scenario analysis. For example, an entity that carries out its climate-related scenario analysis every three years to align with its strategic planning cycle (see paragraph AG44) would be required to reconsider for this purpose its exposure to climate-related risks and opportunities and the skills, capabilities and resources available at that time.

Exposure to Climate-Related Risks and Opportunities

AG26. An entity shall consider its exposure to climate-related risks and opportunities in its assessment of its circumstances and when determining the approach to use for its climate-related scenario analysis. This consideration provides essential context for identifying which risks are included in the assessment, designing the scenario analysis, and understanding the potential benefits of using a particular approach to climate-related scenario analysis. For example, if an entity has a high degree of exposure to climate-related risk then a more quantitative or technically sophisticated approach to climate-related scenario analysis would be of greater benefit to the entity and primary users of general purpose financial reports. Primary users of general purpose financial reports would be less likely to benefit from quantitative or technically sophisticated climate-related scenario analysis if the entity were exposed to few or relatively less severe climate-related risks and opportunities. This means that—with all else being equal—the greater the entity's exposure to climate-related risks or opportunities, the more likely it is the entity would determine that a more technically sophisticated form of climate-related scenario analysis is required.

AG27. This Standard requires an entity to identify the climate-related risks and opportunities to which it is exposed (see paragraph 10(a)) and to disclose information about the process the entity uses to identify, assess, prioritize and monitor those risks and opportunities (see paragraph 25). The information the entity discloses in accordance with paragraphs 10(a) and 25 can inform the entity's consideration of its exposure to climate-related risks and opportunities.

Skills, Capabilities and Resources Available

AG28. An entity shall consider the available skills, capabilities and resources when determining an appropriate approach to use for its climate-related scenario analysis. These skills, capabilities and resources might include both internal and external skills, capabilities and resources. The entity's available skills, capabilities and resources provide context to inform its consideration of the potential cost and level of effort required by a particular approach to climate-related scenario analysis. For example, if an entity has only just begun to explore the use of climate-related scenario analysis to assess its climate resilience, it might be unable to use a quantitative or technically sophisticated approach to climate-related scenario analysis without undue cost or effort. For the avoidance of doubt, if resources are available to the entity then it will be able to invest in obtaining or developing the necessary skills and capabilities.

AG29. Climate-related scenario analysis can be resource intensive and might—through an iterative learning process—be developed and refined over multiple planning cycles. As an entity repeats the climate-related

scenario analysis, it is likely to develop skills and capabilities that will enable the entity to strengthen its approach to climate-related scenario analysis over time. For example, if an entity has not yet used climate-related scenario analysis or participates in a function of government where climate-related scenario analysis is not commonly used, the entity might need more time to develop its skills and capabilities. In contrast, where climate-related scenario analysis is an established practice in its role or function of government, it would be expected to have strengthened skills and capabilities through its experience.

AG30. Entities may leverage climate-related scenario analyses performed by other public sector entities, such as higher levels of government, where the entity has a reasonable and supportable basis for using the other entity's analysis. Entities may also consider whether any additional entity-specific analysis is needed. For example, a town that is part of a large county may determine that the scenario analysis performed by the county is relevant for analysis of its own climate resilience given the geography and similar climate-related risks and opportunities faced. However, the town may be significantly above sea level and therefore could exclude considerations about sea level rise.

AG31. An entity might have a different reporting period from some or all of the entities that it leverages for climate-related scenario analysis purposes. In other cases, climate-related scenario analysis may not be performed annually due to the available resources, skills and capabilities. In such circumstances, the entity is permitted to refer to climate-related scenario analysis for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period, on the condition that:

(a) The entity uses the most recent climate-related scenario analysis available;

(b) The length of the reporting periods is the same; and

(c) The entity discloses the effects of significant events and changes in circumstances (relevant to its climate-related scenario analysis) that occur between the climate-related scenario analysis and the date of the entity's general purpose financial reports.

Determining the Appropriate Approach

AG32. An entity shall determine an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The determination of the approach shall be guided by the assessments of the entity's exposure to climate-related risks and opportunities (see paragraphs AG26–AG27) and its available skills, capabilities and resources (see paragraphs AG28–AG31). Making such a determination involves:

(a) Selecting inputs to the climate-related scenario analysis (see paragraphs AG35–AG39); and

(b) Making analytical choices about how to carry out the climate-related scenario analysis (see paragraphs AG40–AG41).

AG33. Reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. It also includes quantitative or qualitative information, and information that is obtained from an external source or owned or developed internally.

AG34. An entity will need to use judgment to determine the mix of inputs and analytical choices that will enable the entity to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The degree of judgment that is required depends on the availability of detailed information. As the time horizon increases and the availability of detailed information decreases, the degree of judgment required increases.

Selecting Inputs

AG35. When an entity selects the inputs to use in its climate-related scenario analysis, the entity shall consider all reasonable and supportable information—including scenarios, variables and other inputs—available to the entity at the reporting date without undue cost or effort. The inputs used in scenario analysis might include information that is qualitative or quantitative, and is obtained from an external source or developed internally. For example, publicly available climate-related scenarios—from authoritative sources—that describe future trends and a range of pathways to plausible outcomes are considered to be available to the entity without undue cost or effort.

AG36. When selecting scenarios, variables and other inputs to use in climate-related scenario analysis, an entity might, for example, use one or more climate-related scenarios—including international and regional scenarios—that are publicly or freely available from authoritative sources or performed by higher levels of government. The entity shall have a reasonable and supportable basis for using a particular scenario or set of scenarios and could draw upon the applicability of climate-related scenarios performed by other public sector entities to the entity's own circumstances.

AG37. In considering whether the selected inputs are reasonable and supportable, an entity shall consider the objective of paragraph 22, which requires the entity to disclose information that enables primary users of general purpose financial reports to understand the resilience of the entity's strategy and operational model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. This means that the inputs to the entity's climate-related scenario analysis shall be relevant to the entity's circumstances, for example, to the particular activities the entity undertakes and the geographical location of those activities.

AG38. For some analyses, such as current and anticipated financial effects and climate-related scenario analyses, an entity may be required to provide or determine inputs based on forward looking information, which may include policy assumptions.

AG39. An entity should base projections on current policy assumptions. However, there may be instances where a departure from current policy may be appropriate, for example:

(a) There is a conflict between current policy and legal obligations; or

(b) Where current legislation or regulation has a termination date, such as "sunset provisions".

Making Analytical Choices

AG40. An entity's resilience assessment will be guided not only by the individual inputs to its climate-related scenario analysis, but also by the information it develops in combining those inputs to carry out the analysis. The entity shall prioritize the analytical choices (for example, whether to use qualitative analysis or quantitative modelling) that will enable it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. For example, if an entity is able—without undue cost or effort—to incorporate multiple carbon price pathways associated with a given outcome (for example, a 1.5 degree Celsius outcome), this analysis is likely to strengthen the entity's resilience assessment, assuming such an approach is warranted by the entity's risk exposure.

AG41. Quantitative information will often enable an entity to carry out a more robust assessment of its climate resilience. However, qualitative information (including scenario narratives), either alone or combined with quantitative data, can also provide a reasonable and supportable basis for the entity's resilience assessment.

Additional Considerations

AG42. Climate-related scenario analysis is an evolving practice and, therefore, the approach that an entity uses is likely to change over time. As described in paragraphs AG24–AG31, the entity shall determine its approach

to climate-related scenario analysis based on its particular circumstances, including the entity's exposure to climate-related risks and opportunities and the skills, capabilities and resources available for the scenario analysis. Those circumstances are also likely to change over time. Therefore, the entity's approach to climate-related scenario analysis need not be the same from one reporting period or strategic planning cycle to the next (see paragraph AG44).

AG43. An entity might use a simpler approach to climate-related scenario analysis, such as qualitative scenario narratives, if such an approach is appropriate to the entity's circumstances. For example, if an entity does not currently have the skills, capabilities or resources to carry out quantitative climate-related scenario analysis but has a high degree of exposure to climate-related risk, the entity might initially use a simpler approach to climate-related scenario analysis, but would build its capabilities through experience and, therefore, would apply a more advanced quantitative approach to climate-related scenario analysis over time. An entity with a high degree of exposure to climate-related risks and opportunities, and with access to the necessary skills, capabilities or resources, is required to apply a more advanced quantitative approach to climate-related scenario analysis.

AG44. Although paragraph 22 requires an entity to disclose information about its climate resilience at each reporting date, the entity might carry out its climate-related scenario analysis in line with its strategic planning cycle, including a multi-year strategic planning cycle (for example, every three to five years). Therefore, in some reporting periods the entity's disclosures in accordance with paragraph 22(b) could remain unchanged from the previous reporting period if the entity does not conduct a scenario analysis annually. The entity shall—at a minimum—update its climate-related scenario analysis in line with its strategic planning cycle. However, an assessment of the entity's resilience is required to be carried out annually to reflect updated insight into the implications of climate uncertainty for the entity's operational model and strategy. As such, an entity's disclosure in accordance with paragraph 22(a)—that is, the results of the entity's resilience assessment—shall be updated at each reporting period.

Risk Management (paragraphs 24–25)

AG45. To identify, assess, prioritize, and monitor climate-related risks and opportunities, an entity may use its risk management processes and also leverage processes from other entities. For example, a national risk register developed by a higher level of government may inform risk management by entities at lower levels of governments. Such entities would also consider additional factors that reflect their own circumstances.

Metrics and Targets (paragraphs 26–36)

Greenhouse Gas Emissions

Permission to Use Information From a Reporting Period That is Different From the Entity's Reporting Period, in Specific Circumstances

AG46. An entity might have a different reporting period from some or all of the entities in its value chain. Such a difference would mean that greenhouse gas emissions information from these entities in its value chain for the entity's reporting period might not be readily available for the entity to use for its own disclosure. In such circumstances, the entity is permitted to measure its greenhouse gas emissions in accordance with paragraph 28(a)(i) using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period, on the condition that:

(a) The entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose their greenhouse gas emissions;

(b) The length of the reporting periods is the same; and

(c) The entity discloses the effects of significant events and changes in circumstances (relevant to its greenhouse gas emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reports.

Aggregation of Greenhouse Gases into CO_2 Equivalent Using Global Warming Potential Values

AG47. Paragraph 28 requires an entity to disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tons of CO_2 equivalent. To meet this requirement, the entity shall aggregate the seven constituent greenhouse gases into CO_2 equivalent values.

AG48. If an entity uses direct measurement to measure its greenhouse gas emissions, the entity may convert the seven constituent greenhouse gases into a CO_2 equivalent value using global warming potential values based on a 100-year time horizon, from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date.

AG49. If an entity uses emission factors to estimate its greenhouse gas emissions, the entity shall use—as its basis for measuring its greenhouse gas emissions—the emission factors that best represent the entity's activity (see paragraph AG56). If these emission factors have already converted the constituent gases into CO_2 equivalent values, the entity is not required to recalculate the emission factors using global warming potential values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date. However, if an entity uses emission factors that are not converted into CO_2 equivalent values, then the entity may use the global warming potential values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date.

Methodology, Measurement Approach, Inputs and Assumptions

AG50. Paragraph 28(a)(iii) requires an entity to disclose the methodology, measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions. As part of this requirement, the entity shall include information about:

(a) The applicable method if the entity is not using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (see paragraphs AG51–AG54);

(b) The measurement approach the entity uses (see paragraph AG55); and

(c) The emission factors the entity uses (see paragraph AG56).

Greenhouse Gas Accounting Methodologies

AG51. There is a rebuttable presumption that entities use the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). In some circumstances, an entity may determine that another established method of measuring its greenhouse gas emissions is more appropriate for its circumstances to meet the needs of its primary users or is required by a jurisdictional authority.

AG52. In such cases, an entity shall disclose:

(a) The applicable methodology used;

(b) The reason, or reasons, for the entity's choice of methodology; and

(c) How that approach relates to the disclosure objective in paragraph 26.

AG53. For the avoidance of doubt, an entity shall apply the requirements in the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) only to the extent that they do not conflict with the requirements in this Standard. For example, the Greenhouse Gas Protocol : A Corporate Accounting and Reporting Standard (2004) does not require an entity to disclose its Scope 3 greenhouse gas emissions,

however, the entity is required to disclose Scope 3 greenhouse gas emissions in accordance with paragraph 28(a)(i)b.

AG54. Where an entity uses a methodology other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), an entity shall disclose its Scope 1, 2 and 3 aligned with the definitions in paragraph 6, which are based on the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). To the extent these definitions differ from the applicable methodology, the entity shall provide a reconciliation.

Measurement Approach

AG55. An entity may use different measurement approaches when measuring its greenhouse gas emissions. In disclosing information in accordance with paragraph 28(a)(iii), the entity is required to disclose information about the measurement approach it uses. Specifically, the entity shall disclose the approach it uses to determine its greenhouse gas emissions, including:

(a) The approach to consolidation of greenhouse gas emissions, such as whether the entity uses the operational control, the financial control or the equity share approach; and

(b) The reason, or reasons, for the entity's choice of measurement approach and how that approach relates to the disclosure objective in paragraph 26.

Emission Factors

AG56. As part of an entity's disclosure of the measurement approach, inputs and assumptions, the entity shall disclose information to enable the primary users of its general purpose financial reports to understand which emission factors the entity uses in its measurement of its greenhouse gas emissions. This Standard does not specify emission factors an entity is required to use in its measurement of its greenhouse gas emissions. Instead, this Standard requires an entity to use emission factors that best represent the entity's activity as its basis for measuring its greenhouse gas emissions.

Scope 2 Greenhouse Gas Emissions

AG57. Paragraph 28(a)(v) requires an entity to disclose its location-based Scope 2 greenhouse gas emissions and provide information about any contractual instruments the entity has entered into that could inform primary users' understanding of the entity's Scope 2 greenhouse gas emissions. A location-based approach reflects the average emissions intensity of grids on which energy consumption occurs. For the avoidance of doubt, an entity is required to disclose its Scope 2 greenhouse gas emissions using a location-based approach and is required to provide information about contractual instruments only if such instruments exist and information about them informs primary users' understanding of an entity's Scope 2 greenhouse gas emissions.

AG58. Contractual instruments are any type of contract between an entity and another party for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims (unbundled energy attribute claims relate to the sale and purchase of energy that is separate and distinct from the greenhouse gas attribute contractual instruments). Various types of contractual instruments are available in different markets and the entity might disclose information about its market-based Scope 2 greenhouse gas emissions as part of its disclosure.

Scope 3 Greenhouse Gas Emissions

AG59. In accordance with paragraph 28(a)(vi), an entity shall disclose information about its Scope 3 greenhouse gas emissions to enable primary users of general purpose financial reports to understand the source of these emissions. The entity shall consider its entire value chain (upstream and downstream) and shall consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol

Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011). In accordance with paragraph 28(a)(vi), the entity shall disclose which of these categories are included in its Scope 3 greenhouse gas emissions disclosures.

AG60. For the avoidance of doubt, regardless of the methodology an entity uses to measure its greenhouse gas emissions, the entity is required to disclose the categories included within its measure of Scope 3 greenhouse gas emissions as described in paragraph 28(a)(vi)a.

AG61. An entity's determination of which Scope 3 categories to measure and disclose will require management's judgment and may consider trade-offs such as the cost of collecting data, skills and capabilities needed compared against the benefit the information provides for decision making. This determination shall be based on an entity's mandate and the materiality assessment for information needs of primary users for decision making and accountability purposes.

AG62. In accordance with paragraph B.AG22, on the occurrence of a significant event or a significant change in circumstances, an entity shall reassess the scope of all affected climate-related risks and opportunities throughout its value chain, including reassessing which Scope 3 categories and entities throughout its value chain to include in the measurement of its Scope 3 greenhouse gas emissions. A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances or as a result of a change in what the entity assesses to be important to primary users of general purpose financial reports.

AG63. An entity is permitted, but not required, to reassess the scope of any climate-related risk or opportunity throughout its value chain more frequently than required by paragraph B.AG22.

AG64. In accordance with paragraph B.AG2(b), to determine the scope of the value chain, which includes its breadth and composition, an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

Scope 3 Measurement Framework

AG65. An entity's measurement of Scope 3 greenhouse gas emissions is likely to include the use of estimation rather than solely comprising direct measurement. In measuring Scope 3 greenhouse gas emissions an entity shall use a measurement approach, inputs and assumptions that result in a faithful representation of this measurement. The measurement framework described in paragraphs AG67–AG79 provides guidance for an entity to use in preparing its Scope 3 greenhouse gas emissions disclosures.

AG66. An entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 greenhouse gas emissions.

AG67. An entity's measurement of Scope 3 greenhouse gas emissions relies upon a range of inputs. This Standard does not specify the inputs the entity is required to use to measure its Scope 3 greenhouse gas emissions, but does require the entity to prioritize inputs and assumptions using these identifying characteristics (which are listed in no particular order):

(a) Data based on direct measurement (paragraphs AG69–AG71);

(b) Data from specific activities within the entity's value chain (paragraphs AG72–AG75);

(c) Timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its greenhouse gas emissions (paragraphs AG76–AG77); and

(d) Data that has been verified (paragraphs AG78–AG79).

AG68. An entity's prioritization of the measurement approach, inputs and assumptions and the entity's considerations of associated trade-offs—based on the characteristics in paragraph AG67—requires management to apply judgment. For example, an entity might need to consider the trade-offs between timely data and data that is more representative of the jurisdiction and technology used for the value chain activity and its emissions. More recent data might provide less detail about the specific activity, including the technology that was used in the value chain and the location of that activity. On the other hand, older data that is published infrequently might be considered more representative of the specific activity and its greenhouse gas emissions.

Data Based on Direct Measurement

AG69. Two methods are used to quantify Scope 3 greenhouse gas emissions: direct measurement and estimation. Of these two methods—and with all else being equal—an entity shall prioritize direct measurement.

AG70. "Direct measurement" refers to the direct monitoring of greenhouse gas emissions and, in theory, provides the most accurate evidence. However, it is expected that Scope 3 greenhouse gas emissions data will include estimation due to the challenges associated with direct measurement of Scope 3 greenhouse gas emissions.

AG71. Estimation of Scope 3 greenhouse gas emissions involves approximate calculations of data based on assumptions and appropriate inputs. An entity that measures its Scope 3 greenhouse gas emissions using estimation is likely to use two types of input:

(a) Data that represents the entity's activity that results in greenhouse gas emissions (activity data). For example, the entity might use distance travelled as activity data to represent the transport of goods within its value chain; and

(b) Emission factors that convert activity data into greenhouse gas emissions. For example, the entity will convert the distance travelled (activity data) into greenhouse gas emissions data using emission factors.

Data From Specific Activities Within the Entity's Value Chain

AG72. An entity's measurement of its Scope 3 greenhouse gas emissions will be based on data obtained directly from specific activities within the entity's value chain (primary data), data not obtained directly from activities within the entity's value chain (secondary data), or a combination of both.

AG73. In measuring an entity's Scope 3 greenhouse gas emissions, primary data is more likely to be representative of the entity's value chain activity and its greenhouse gas emissions than secondary data. Therefore, the entity shall prioritize—with all else being equal—the use of primary data.

AG74. Primary data for Scope 3 greenhouse gas emissions includes data provided by suppliers or other entities in the value chain related to specific activities in an entity's value chain. For example, primary data could be sourced from meter readings, utility bills or other methods that represent specific activities in the entity's value chain. Primary data could be collected internally (for example, through the entity's own records), or externally from suppliers and other value chain partners (for example, supplier-specific emission factors for purchased goods or services). Data from specific activities within an entity's value chain provides a more accurate representation of the entity's specific value chain activities and, therefore, will provide a better basis for measuring the entity's Scope 3 greenhouse gas emissions.

AG75. Secondary data for Scope 3 greenhouse gas emissions is data that is not obtained directly from specific activities within an entity's value chain. Secondary data is often supplied by third-party data providers (for example, from published databases, government statistics, literature studies and industry associations). Secondary data includes data used to approximate the activity or emission factors. Additionally, secondary data includes primary data from a specific activity (proxy data) used to estimate greenhouse gas emissions

for another activity. If an entity uses secondary data to measure its Scope 3 greenhouse gas emissions, it shall consider the extent to which the data faithfully represents the entity's activities.

Timely Data That Faithfully Represents the Value Chain Activity and Its Greenhouse Gas Emissions

AG76. If an entity uses secondary data, it shall prioritize the use of activity or emissions data that is based on, or represents, the technology used in the value chain activity the data is intended to represent. For example, an entity might obtain primary data from its activities (for example, the specific aircraft model, distance traveled, and travel-class used by employees when traveling) and would then use secondary data that represents the greenhouse gas emissions arising from those activities to convert the primary data into an estimate of its greenhouse gas emissions from air travel.

AG77. If an entity uses secondary data, it shall prioritize activity or emissions data that is timely and representative of the entity's value chain activity during the reporting period. In some jurisdictions, and for some technologies, secondary data is collected annually and, therefore, the data is likely to be representative of the entity's current practice. However, some secondary data sources rely on information collected in a reporting period that is different from the entity's own reporting period.

Verified Data

AG78. An entity shall prioritize Scope 3 greenhouse gas emissions data that is verified. Verification can provide primary users of general purpose financial reports with confidence that the information is complete, neutral and accurate.

AG79. Verified data might include data that has been internally or externally verified. Verification can take place in several ways, including on-site checking, reviewing calculations, or cross-checking of data against other sources. However, in some cases an entity might be unable to verify its Scope 3 greenhouse gas emissions without undue cost or effort. For example, the entity might be prevented from obtaining a complete set of verified data due to the volume of data or because the data is obtained from entities in the value chain that are separated by many tiers from the reporting entity, that is, entities that the reporting entity does not interact with directly. In such cases, an entity might need to use unverified data.

Disclosure of Inputs to Scope 3 Greenhouse Gas Emissions

AG80. An entity shall disclose information about the measurement approach, inputs and assumptions it uses to measure its Scope 3 greenhouse gas emissions in accordance with paragraph 28(a)(iii). This disclosure shall include information about the characteristics of the data inputs as described in paragraph AG65. The purpose of this disclosure is to provide primary users of general purpose financial reports with information about how the entity has prioritized the highest quality data available, which faithfully represents the value chain activity and its Scope 3 greenhouse gas emissions. This disclosure also helps primary users of general purpose financial reports to understand why the measurement approach, inputs and assumptions the entity uses to estimate its Scope 3 greenhouse gas emissions are relevant.

AG81. As part of the requirement in paragraph 28(a)(iii), and to reflect how an entity prioritizes Scope 3 data in accordance with the measurement framework set out in paragraphs AG67–AG79, the entity shall disclose information that enables primary users of general purpose financial reports to understand:

(a) The extent to which the entity's Scope 3 greenhouse gas emissions are measured using inputs from specific activities within the entity's value chain; and

(b) The extent to which the entity's Scope 3 greenhouse gas emissions are measured using inputs that are verified.

AG82. This Standard includes the presumption that Scope 3 greenhouse gas emissions can be estimated reliably using secondary data and peer averages. In those rare cases when an entity determines it is impracticable

to estimate its Scope 3 greenhouse gas emissions, the entity shall disclose how it is managing its Scope 3 greenhouse gas emissions. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Financed Emissions

AG83. Entities participating in financial activities face risks and opportunities related to the greenhouse gas emissions associated with those activities. Counterparties, borrowers or investees with higher greenhouse gas emissions might be susceptible to risks associated with technological changes, shifts in supply and demand and policy change, which in turn can affect the institution that is providing financial services to these entities. These risks and opportunities can arise in the form of credit risk, market risk, reputational risk and other financial and operational risks. For example, credit risk might arise in relation to financing carbon-intensive sectors, increasing the exposure to stranded assets under increasingly stringent regulations, technological shifts, and changing resource landscapes; credit risk might also arise through increased insurance liability and increased cash outflows by public sector entities arising from damages caused by physical climate risks. Reputational risk might arise from financing carbon-intensive projects. Entities participating in financial activities, such as central banks, public investment corporations, housing finance agencies and public pension funds, monitor and manage such risks by measuring their financed emissions. This measurement serves as an indicator of an entity's exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time.

AG84. An entity shall apply the requirements for disclosing greenhouse gas emissions in accordance with paragraph 28 when disclosing information about its financed emissions.

Metric Categories

AG85. In addition to information about an entity's greenhouse gas emissions, the entity is required to disclose information relevant to the metric categories set out in paragraphs 28(b)–(g).

AG86. In preparing disclosures to fulfill the requirements in paragraphs 28(b)–(g), an entity shall:

(a) Consider the time horizons over which the effects of climate-related risks and opportunities could reasonably be expected to occur, described in accordance with paragraph 11;

(b) Consider where in the entity's operational model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets or services) (see paragraph 13);

(c) Consider the information disclosed in accordance with paragraphs 16(a)–(b) in relation to the effects of climate-related risks and opportunities on the entity's long-term fiscal sustainability, including services it delivers, for the reporting period;

(d) Consider whether peer metrics, as described in paragraph 31 may be relevant for satisfying the requirements in whole or in part; and

(e) Consider the connections between the information disclosed to fulfil the requirements in paragraphs 16(b)–(g) with the information disclosed in the related financial statements, in accordance with paragraph B12(b)(ii). These connections include consistency in the data and assumptions used—to the extent possible—and linkages between the amounts disclosed in accordance with paragraphs 28(b)–(g) and the amounts recognized and disclosed in the financial statements. For example, an entity would consider whether the carrying amount of assets used is consistent with amounts included in the financial statements and would explain the connections between information in these disclosures and amounts in the financial statements.

AG87. Paragraph 28(f) requires an entity to disclose whether it applies internal carbon prices in decision making. The internal carbon price may be applicable for public sector entities in various ways, including but not limited to:

(a) Procurement, where a carbon price is incorporated into the cost of goods and services procured; and

(b) Internal taxes or fees, where a carbon price is charged internally, similar to intra-entity transfer pricing.

AG88. In the public sector, internal carbon prices may not always be set internally by individual entities. In some jurisdictions, another public sector entity such as a central department may establish a carbon price applicable for public sector entities for internal decision making such as procurement, across the jurisdiction. In such cases, this may be the entity's internal carbon price even though it is developed by an external source.

Climate-Related Targets (paragraphs 32–36)

Characteristics of a Climate-Related Target

AG89. Paragraph 32 requires an entity to disclose the quantitative or qualitative climate-related targets it has set, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. In disclosing these climate-related targets, the entity is required to disclose information about the characteristics of these targets as described in paragraphs 32(a)–(h). If the climate-related target is quantitative, an entity is required to describe whether the target is an absolute target or an intensity target. An absolute target is defined as a total amount of a measure or a change in the total amount of a measure, whereas an intensity target is defined as a ratio of a measure, or a change in the ratio of a measure, to an operating metric.

AG90. In identifying and disclosing the metric used to set a climate-related target and measure progress, an entity shall consider the metric categories in paragraphs 28(a)–(g) and, where relevant, peer metrics. If the metric has been developed by the entity to measure progress towards a target, the entity shall disclose information about:

(a) How the metric is defined, including whether it is derived by adjusting a metric taken from a source other than this Standard and, if so, which source and how the metric disclosed by the entity differs from the metric specified in that source;

(b) Whether the metric is an absolute measure, a measure expressed in relation to another metric or a qualitative measure (such as a red, amber, green—or RAG—status);

(c) Whether the metric is validated by a third party and, if so, which party; and

(d) The method used to calculate the metric and the inputs to the calculation, including the limitations of the method used and the significant assumptions made.

Greenhouse Gas Emissions Targets – Gross and Net Greenhouse Gas Emissions Targets

AG91. If an entity has a greenhouse gas emissions target, the entity is required to specify whether the target is a gross greenhouse gas emissions target or a net greenhouse gas emissions target. Gross greenhouse gas emissions targets reflect the total changes in greenhouse gas emissions planned within the entity's value chain. Net greenhouse gas emissions targets are the entity's targeted gross greenhouse gas emissions minus any planned offsetting efforts (for example, the entity's planned use of carbon credits to offset its greenhouse gas emissions).

AG92. Paragraph 35(c) specifies that if an entity has a net greenhouse gas emissions target it is required to also disclose a gross greenhouse gas emissions target. For the avoidance of doubt, if the entity discloses a net

greenhouse gas emissions target, this target cannot obscure information about its gross greenhouse gas emissions targets.

Carbon Credits

AG93. Paragraph 35(e) requires an entity to describe its planned use of carbon credits —which are transferable or tradeable instruments—to offset emissions to achieve any net greenhouse gas emissions targets the entity has set, or any targets it is required to meet by law or regulation. Any information about the planned use of carbon credits shall clearly demonstrate the extent to which these carbon credits are relied on to achieve the net greenhouse gas emissions targets.

AG94. In accordance with paragraph 35(e), an entity is required to disclose only its planned use of carbon credits. However, as part of this disclosure, the entity might also include information about carbon credits it has already purchased that the entity is planning to use to meet its net greenhouse gas emissions target, if the information enables primary users of general purpose financial reports to understand the entity's greenhouse gas emissions target.

Appendix B: General Requirements for Climate-Related Disclosures

This Appendix is an integral part of IPSASB SRS 1.

Definitions

B1. **The following terms are used in this Standard with the meanings specified:**

General purpose financial reports are reports that provide financial and non-financial information about a reporting entity that is useful to primary users in making decisions and to enable accountability. General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and climate-related disclosures.

In the context of climate-related disclosures, material information is information that, if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial reports prepared for that reporting period.

Primary users of general purpose financial reports (primary users) are existing and potential service recipients and their representatives and resource providers and their representatives.

Terms used in this Standard with the meanings specified in IPSAS Standards are set out in Appendix D: Terms in this IPSASB SRS Standard Defined in IPSAS Standards.

Conceptual Foundations

B2. For climate-related information to be useful, it must provide information that is relevant, faithfully represents what it purports to represent, is understandable, timely, comparable and verifiable. These are qualitative characteristics of information included in general purpose financial reports.

Fair Presentation

B3. A reporting entity shall present fairly its climate-related risks and opportunities that could reasonably be expected to affect the long-term fiscal sustainability of the entity.

B4. To identify an entity's climate-related risks and opportunities that could reasonably be expected to affect an entity's long-term fiscal sustainability, an entity shall apply paragraphs B.AG1–B.AG22.

B5. Fair presentation requires disclosure of relevant information about climate-related risks and opportunities and their faithful representation in accordance with the principles set out in this Standard. To achieve faithful representation, an entity shall provide a depiction of those climate-related risks and opportunities that are complete, neutral and free from material error.

B6. Fair presentation also requires an entity:

(a) To present information in a manner that provides relevant, understandable, timely, comparable, and verifiable information (see Appendix C: Qualitative Characteristics); and

(b) To disclose additional information as needed to enable primary users of general purpose financial reports to sufficiently understand the effects of the entity's climate-related risks and opportunities on the entity's long-term fiscal sustainability.

B7. Applying this Standard, with additional information disclosed when necessary (see paragraph B6(b)), is presumed to result in climate-related disclosures that achieve fair presentation.

Materiality

B8. An entity shall disclose material information about an entity's climate-related risks and opportunities that could reasonably be expected to affect the entity's long-term fiscal sustainability.

B9. In the context of climate-related disclosures, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial reports prepared for that reporting period.

B10. To determine and disclose material information, an entity shall apply paragraphs B.AG23–B.AG47.

Reporting Entity

B11. An entity's climate-related disclosures shall be for the same reporting entity as the related financial statements (see paragraph B.AG48).

Connected Information

B12. An entity shall provide information in a manner that enables primary users of general purpose financial reports to understand the following types of connections:

(a) The connections between the items to which the information relates—such as connections between various climate-related risks and opportunities that could reasonably be expected to affect the entity's long-term fiscal sustainability; and

(b) The connections between disclosures provided by the entity:

(i) Within its climate-related disclosures—such as connections between disclosures on governance, strategy, risk management, and metrics and targets; and

(ii) Across its climate-related disclosures and other general purpose financial reports published by the entity—such as its related financial statements (see paragraphs B.AG49–B.AG54).

B13. An entity shall identify the financial statements to which the climate-related disclosures relate.

B14. Data and assumptions used in preparing the climate-related disclosures shall be consistent—to the extent possible considering the requirements of IPSAS Standards or other applicable GAAP—with the corresponding data and assumptions used in preparing the related financial statements (see paragraph B.AG52).

B15. When currency is specified as the unit of measure in the climate-related disclosures, the entity shall use the presentation currency of its related financial statements.

General Requirements

Sources of Guidance

Identifying Climate-Related Risks and Opportunities

B16. An entity shall apply this Standard in identifying climate-related risks and opportunities that could reasonably be expected to affect an entity's long-term fiscal sustainability.

B17. In addition to this Standard, an entity may refer to and consider the applicability of:

(a) The most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of primary users of general purpose financial reports; and

(b) The climate-related risks and opportunities identified by peer entities or entities that operate in the same function of government or geographical region(s). An entity may refer to and consider sector

standards such as the SASB Standards and GRI Sector Standards to consider applicability to the entity's circumstances.

Identifying Applicable Disclosure Requirements

B18. An entity shall apply this Standard in identifying applicable disclosure requirements about climate-related risks and opportunities that could reasonably be expected to affect the entity's long-term fiscal sustainability.

B19. In the absence of guidance or metrics in this Standard that specifically apply to an entity's specific circumstances and climate-related risks and opportunities, an entity shall apply judgment to identify information that:

(a) Is relevant to the decision making of and enables accountability by primary users of general purpose financial reports; and

(b) Faithfully represents that climate-related risk or opportunity.

B20. In making the judgment described in paragraph B19:

(a) An entity may refer to and consider the applicability of peer metrics and may consider other guidance such as SASB Standards or GRI Sector Standards. An entity may conclude that such peer metrics are not applicable in the entity's circumstances.

(b) An entity may—to the extent that these sources do not conflict with this Standard—refer to and consider the applicability of:

(i) The most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of primary users of general purpose financial reports; and

(ii) The information, including metrics, disclosed by peer entities or entities that operate in the same function of government or geographical region(s).

Disclosure of Information About Sources of Guidance

B21. An entity shall identify and disclose:

(a) The specific standards, pronouncements, function-specific practice and other sources of guidance that the entity has applied in preparing its climate-related disclosures, including, if applicable, peer metrics; and

(b) Other sources of guidance relating to a particular function(s) that the entity has applied in preparing its climate-related disclosures, including in identifying applicable metrics.

Location of Disclosures

B22. An entity is required to provide disclosures required by this Standard as part of its general purpose financial reports.

B23. Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose climate-related information. Climate-related disclosures could be included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports. Management commentary or a similar report is a required report in many jurisdictions. It might be known by or included in reports with various names, such as "management report", "management's discussion and analysis", "operating and financial review", "integrated report" or "strategic report".

B24. An entity may disclose information required by this Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. The entity shall ensure that the climate-related disclosures are clearly identifiable and not obscured by that additional information (see paragraph B.AG44).

B25. Information required by this Standard may be included in climate-related disclosures by cross-reference to another report published by the entity. If an entity includes information by cross-reference, the entity shall apply the requirements in paragraphs B.AG57–B.AG59.

Timing of Reporting

B26. An entity shall report its climate-related disclosures at the same time as its related financial statements. The entity's climate-related disclosures shall cover the same reporting period as the related financial statements.

B27. Normally, an entity prepares climate-related disclosures for a 12-month period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude that practice.

B28. When an entity changes the end of its reporting period and provides climate-related disclosures for a period longer or shorter than 12 months, it shall disclose:

(a) The period covered by the climate-related disclosures;

(b) The reason for using a longer or shorter period; and

(c) The fact that the amounts disclosed in the climate-related disclosures are not entirely comparable.

B29. If, after the end of the reporting period but before the date on which the climate-related disclosures are authorized for issue, an entity receives information about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions in the light of the new information.

B30. An entity shall disclose information about transactions, other events and conditions that occur after the end of the reporting period, but before the date on which the climate-related disclosures are authorized for issue, if non-disclosure of that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.

B31. This Standard does not mandate which entities would be required to provide interim climate-related disclosures, how frequently, or how soon after the end of an interim period. If an entity is required or elects to publish interim climate-related disclosures in accordance with this Standard, the entity shall apply paragraph B.AG60.

Comparative Information

B32. An entity shall disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the climate-related disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive climate-related information (see paragraphs B.AG61–B.AG71).

B33. Amounts reported in climate-related disclosures might relate, for example, to metrics and targets or to current and anticipated financial effects of climate-related risks and opportunities.

Statement of Compliance

B34. An entity whose climate-related disclosures comply with all the requirements of this Standard shall make an explicit and unreserved statement of compliance. An entity shall not describe climate-related disclosures as complying with this Standard unless they comply with all the requirements of this Standard.

B35. This Standard relieves an entity from disclosing information otherwise required if law or regulation prohibits the entity from disclosing that information (see paragraph B.AG42). An entity using this exemption is not prevented from asserting compliance with this Standard.

Judgments, Uncertainties and Errors

Judgments

B36. An entity shall disclose information to enable primary users of general purpose financial reports to understand the judgments, apart from those involving estimations of amounts (see paragraph B38), that the entity has made in the process of preparing its climate-related disclosures and that have the most significant effect on the information included in those disclosures.

B37. In the process of preparing climate-related information, an entity makes various judgments, apart from those involving estimations, that can significantly affect the information reported in the entity's climate-related disclosures. For example, an entity makes judgments in:

(a) Identifying climate-related risks and opportunities;

(b) Determining which sources of guidance to apply in accordance with paragraphs B16–B20;

(c) Determining material information to include in the climate-related disclosures; and

(d) Assessing whether an event or change in circumstances is significant and requires reassessment of the scope of all affected climate-related risks and opportunities throughout the entity's value chain (see paragraph B.AG22).

Measurement Uncertainty

B38. An entity shall disclose information to enable primary users of general purpose financial reports to understand the most significant uncertainties affecting the amounts reported in its climate-related disclosures.

B39. An entity shall:

(a) Identify the amounts that it has disclosed that are subject to a high level of measurement uncertainty; and

(b) In relation to each amount identified in paragraph B39(a), disclose information about:

(i) The sources of measurement uncertainty—for example, the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's value chain; and

(ii) The assumptions, approximations and judgments the entity has made in measuring the amount.

B40. When amounts reported in climate-related disclosures cannot be measured directly and can only be estimated, measurement uncertainty arises. In some cases, an estimate involves assumptions about possible future events with uncertain outcomes. The use of reasonable estimates is an essential part of preparing climate-related disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained. However, high levels of measurement uncertainty could potentially diminish the reliability of an estimate in providing useful information. In the context of climate-related disclosures, the incorporation of qualitative information can also enhance the overall usefulness of the information.

B41. The requirement in paragraph B38 for an entity to disclose information about the uncertainties affecting the amounts reported in climate-related disclosures relates to the estimates that require the entity's most difficult, subjective or complex judgments. As the number of variables and assumptions increases, those judgments

become more subjective and complex, and the uncertainty affecting the amounts reported in the climate-related disclosures increases accordingly.

B42. The type and extent of the information an entity might need to disclose vary according to the nature of the amount reported in the climate-related disclosures—the sources of and the factors contributing to the uncertainty and other circumstances. Examples of the type of information an entity might need to disclose are:

(a) The nature of the assumption or other source of measurement uncertainty;

(b) The sensitivity of the disclosed amount to the methods, assumptions and estimates underlying its calculation, including the reasons for the sensitivity;

(c) The expected resolution of an uncertainty and the range of reasonably possible outcomes for the disclosed amount; and

(d) An explanation of changes made to past assumptions concerning the disclosed amount, if the uncertainty remains unresolved.

Errors

B43. An entity shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so.

B44. Prior period errors are omissions from, and misstatements in, the entity's climate-related disclosures for one or more prior periods. Such errors arise from a failure to use, or the misuse of, reliable information that:

(a) Was available when the climate-related disclosures for that period(s) were authorized for issue; and

(b) Could reasonably be expected to have been obtained and considered in the preparation of those disclosures.

B45. Corrections of errors are distinguished from changes in estimates. Estimates are approximations that an entity might need to revise as additional information becomes known.

B46. If an entity identifies a material error in its prior period climate-related disclosures, it shall apply paragraphs B.AG67–B.AG71.

Appendix B.AG: Application Guidance – General Requirements for Climate-Related Disclosures

This Appendix is an integral part of IPSASB SRS 1.

Climate-Related Risks and Opportunities

B.AG1. This Standard provides principles for an entity to disclose information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's long-term fiscal sustainability (see paragraph 2).

B.AG2. An entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs B.AG16–B.AG20):

(a) To identify the climate-related risks and opportunities; and

(b) To determine the scope of its value chain, including its breadth and composition, in relation to each of those climate-related risks and opportunities.

B.AG3. In determining material information for disclosure, an entity shall:

(a) Understand its context (paragraphs B.AG4–B.AG14);

(b) Identify climate-related risks and opportunities (paragraphs B.AG15–B.AG22); and

(c) Determine material information for disclosure (paragraphs B.AG23–B.AG47).

Understand the Entity's Context

B.AG4. Understanding an entity's own context is an important first step that provides the entity with critical information for identifying its climate-related risks and opportunities. To understand from an entity's own context, the entity should understand its activities, relationships, stakeholders, and the climate context in which these occur.

B.AG5. An entity's activities include all types of activities that an entity carries out to achieve its objectives. An entity should consider all aspects of its activities including, for example, the types of activities to deliver its services, the geographic location of these activities, the operating environment and economy, the intended beneficiaries, the nature of employees and non-employees (e.g., contractors or volunteers) and the work they perform for the entity.

B.AG6. An entity's relationships include those with upstream suppliers and service providers, and downstream delivery of services or goods to beneficiaries. For example:

(a) A public hospital's relationships may include those with upstream suppliers of medical equipment and emergency vehicles as well as downstream patients receiving services; and

(b) A taxation authority's relationships may include those with legislative bodies and private corporations and individuals that are required to pay taxes.

B.AG7. Public sector value chains are based on public value creation, rather than profit oriented, through providing essential services to improve service recipients' quality of life and fostering trust in the jurisdiction. Public sector entities serve the public interest and have a wide-ranging set of stakeholders, including primary users. Value chains for an entity are often complex, involving relationships and interactions with multiple stakeholders, including citizens, other public sector agencies, private corporations and nonprofit institutions.

B.AG8. Climate-related reporting shall consider all relevant stakeholders whose interests could reasonably be expected to be affected by the entity's activities, including those that may have a direct relationship with the

entity (e.g., employees, local communities, suppliers, other entities or individuals that may be affected by the entity's operations) or those who do not or are unable to articulate views (e.g., future generations).

B.AG9. An understanding of these stakeholders supports identification of climate-related risks and opportunities. This may result in a broad set of climate-related risks and opportunities, as engagement may be with a broader group than primary users of general purpose financial reports. However, this information will support the ultimate determination of material information that meets the needs of primary users for decision-making and accountability purposes.

B.AG10. This is consistent with the guidance in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) that acknowledges that, while those other than the primary users may find the information provided by general purpose financial reports useful, general purpose financial reports are not developed to specifically respond to their information needs.

B.AG11. Climate-related reporting should consider the wider context and latest international developments on climate. Climate context includes:

(a) Objective and authoritative developments and measures such as scientific research or consensus on climate issues;

(b) The latest international agreements on climate-related goals and conditions; and

(c) Expectations of responsible conduct set out in authoritative intergovernmental instruments e.g., United Nations (UN) Sustainable Development Goals from the 2030 Agenda for Sustainable Development, UN Framework Convention on Climate Change, Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, UN Declaration on the Rights of Indigenous Peoples and in other recognized sector-specific, local, regional or global instruments.

B.AG12. An entity shall understand its role and objectives and how it contributes to delivering on climate change commitments, including the latest international agreements on climate change and related regional, national or subnational transition and adaptation plans. For example, an energy regulator whose objective is to ensure safe and efficient delivery of energy to its jurisdiction will contribute to climate change commitments by setting policies that support resource development of lower-emitting energy sources. In addition, the energy regulator would also identify climate-related risks and opportunities such as emissions from its operations or climate-related physical risks to facilities located near areas with increasing frequency of severe wildfires.

B.AG13. If certain processes or assessments have been performed by higher levels of government relating to these commitments, such as processes to engage relevant stakeholders, established national risk registers or climate-related scenario analysis, an entity may consider the applicability of these to the entity's own circumstances and may avoid duplication of efforts to the extent applicable.

B.AG14. The entity shall consider the activities, relationships, stakeholders, and climate context of all the entities it controls or has an interest in (e.g., controlled entities, joint arrangements, associates or holdings of other minority interests).

Identify Climate-Related Risks and Opportunities

Peer Disclosures

B.AG15. Entities are encouraged to consider the applicability of climate-related risks and opportunities that are common to other entities with similar operations, function of government, and/or geographic location because such disclosures may be expected by primary users of general purpose financial reports and may inform an entity's materiality judgments.

Reasonable and Supportable Information

B.AG16. To identify climate-related risks and opportunities, including the processes to engage relevant stakeholders (see paragraphs B.AG4–B.AG14), the entity shall use all reasonable and supportable information available to the entity without undue cost or effort.

B.AG17. Reasonable and supportable information used by an entity in preparing its climate-related disclosures shall cover factors that are specific to the entity as well as general conditions in the external environment. In some cases—such as in identifying an entity's climate-related risks and opportunities—reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions.

B.AG18. An entity may use various sources of data that may be both internal and external. Possible data sources include the entity's risk management processes; peer group experience; and external ratings, reports and statistics. Information that is used by the entity in preparing its financial statements, operations, setting its strategy and managing its risks and opportunities is considered to be available to the entity without undue cost or effort.

B.AG19. An entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities. The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change.

B.AG20. In some cases, an entity may leverage another entity's processes, such as a national risk register or climate-related scenario analysis performed by centralized public sector entities in its jurisdiction. The entity may consider the applicability of the other entity's processes and findings and, where applicable, cross-reference to the other entity's reports and consider whether additional entity-specific information is required for primary users' decision-making and accountability needs (see paragraphs B.AG57–B.AG59).

Reassessment of the Scope of Climate-Related Risks and Opportunities

B.AG21. Climate-related risks and opportunities may change over time as the entity's activities, relationships, stakeholders and climate context evolve. New activities, new relationships, and major changes in operations or the operating context could lead to changes in the entity's climate-related risks and opportunities. For this reason, the entity may, but is not required to, reassess its context and identify climate-related risks and opportunities on an ongoing basis.

B.AG22. At a minimum, an entity shall reassess the scope of all affected climate-related risks and opportunities throughout its value chain on the occurrence of a significant event or significant change in circumstances. A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances, or as a result of a change in what the entity assesses to be important to primary users of general purpose financial reports. For example, such significant events or significant changes in circumstances might include:

(a) A significant change in the entity's value chain (for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's greenhouse gas emissions);

(b) A significant change in the entity's operational model, activities or structure (for example, changes in structure following a change in political leadership); and

(c) A significant change in an entity's exposure to climate-related risks and opportunities (for example, an increase in frequency or severity of extreme weather events in the entity's jurisdiction that increases risks to the entity).

Materiality (paragraphs B8–B10)

B.AG23. Primary users of public sector general purpose financial reports include service recipients and their representatives, such as legislature or members of parliament who act as representatives of citizens, eligible residents and taxpayers, and resource providers and their representatives, such as multilateral or bilateral donor agencies and lenders and corporations that provide resources to, and transact with, government.

B.AG24. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial reports prepared for that reporting period. Materiality depends on both the nature and magnitude of the item judged in the particular circumstances of each entity.

B.AG25. Assessing whether information could reasonably be expected to influence decisions made by primary users requires an entity to consider the characteristics of primary users while also considering the entity's own circumstances.

B.AG26. Service recipients and resource providers require climate-related information for accountability purposes that contributes to, and informs, decision making. Climate-related information needs for accountability and decision-making may be different for different users. For example, a service recipient may look for information on the entity's climate resilience and ability to deliver its service objectives in light of climate-related physical risks to inform how they vote or where they choose to live; while a central government may look for the entity's effective contribution to national transition and adaptation plans to inform its policy setting strategies and/or allocation of resources.

B.AG27. Climate-related disclosures are prepared for primary users who have a reasonable knowledge of public sector programs and operations and who review and analyze the information diligently. At times, even well-informed and diligent primary users may need the aid of an adviser to understand climate-related information.

B.AG28. Individual primary users may have different, and sometimes even conflicting, information needs and desires. Information needs of primary users may also evolve over time. Climate-related disclosures are intended to meet common information needs of primary users.

Determining Material Information

B.AG29. Materiality depends on both qualitative and quantitative information judged in the circumstances of each entity during the reporting period and in the future. Consequently, it is not possible to specify a uniform characteristic or set of characteristics at which a particular type of information becomes material.

B.AG30. To determine material information about a climate-related risk or opportunity, an entity shall apply, as the starting point, the requirements of this Standard.

B.AG31. An entity shall assess whether the information identified in applying this Standard, either individually or in combination with other information, is material in the context of the entity's climate-related disclosures taken as a whole. In assessing whether information is material, an entity shall consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a climate-related risk or opportunity.

B.AG32. An entity need not disclose information otherwise required by this Standard if the information is not material. This is the case even if this Standard contains a list of specific requirements.

B.AG33. Though materiality judgments are specific to an entity, entities are encouraged to consider the applicability of disclosures provided by peers. For example, if an entity is not exposed to a risk to which other peer entities are exposed, the lack of exposure to that particular risk could also be material information where an entity may be expected to incur that risk.

Qualitative Judgments in Materiality

B.AG34. An entity generally assesses whether information is quantitatively material by considering the magnitude, such as the amount and size, of the transaction against measures of the entity's financial position, financial performance and cash flows. For example, the anticipated expenses to develop green infrastructure may be of such a size that it could reasonably be expected to influence decisions that primary users make on the basis of that information.

B.AG35. However, an item of information could reasonably be expected to influence primary users' decisions and assessment of accountability regardless of magnitude or size compared against the entity's financial position, financial performance and cash flows. For example:

(a) How difficult it is to remediate greenhouse gas emissions may influence an entity's primary users' decisions regardless of the size of those emissions;

(b) The lack of processes, such as the lack of climate-related reporting processes, could be material information; and

(c) The range of estimates and the number of assumptions required to estimate the financial effects of a climate-related opportunity could influence how useful the information may be to meet primary users' accountability and decision-making needs.

B.AG36. Information about a single climate-related risk or opportunity may not be material on an individual basis. However, similar climate-related risks or opportunities may be material when taken in aggregate. For example, an entity might be exposed to several climate-related risks, each of which could cause the same type of disruption (such as disruptions to the entity's supply chain). Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

B.AG37. With regard to potential future climate-related risks and opportunities, an entity may assess whether information is qualitatively material by considering the likelihood of the potential climate-related risk or opportunity. For example:

(a) Information about a possible future event is more likely to be judged as being material if the potential effects are significant and the event is likely to occur;

(b) If a possible future event is expected to affect an entity or society, but only many years in the future, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner; and

(c) Whether a climate-related opportunity is currently being pursued as part of its approved strategy, as opposed to a general opportunity for the entity, may affect how useful the information is to the user for decision-making purposes.

B.AG38. In some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular risk or opportunity is highly scrutinized by primary users of an entity's general purpose financial reports.

B.AG39. An entity must consider the context in which it operates when making materiality judgments, and in respect of prospective information, the preparer's knowledge and expectations about the future, including the range of possible outcomes and the likelihood within that range and all pertinent facts and circumstances. An entity shall also consider whether information about low-probability and high-severity outcomes might be material either individually or in combination with information about other low-probability and high-severity outcomes.

Interaction with Law or Regulation

B.AG40. Laws or regulations might specify requirements for an entity to disclose climate-related information in its general purpose financial reports. In such circumstances, the entity is permitted to include in its climate-related disclosures information to meet legal or regulatory requirements, even if that information is not material. However, such information shall not obscure material information.

B.AG41. An entity shall disclose material climate-related information, even if a law or regulation permits the entity not to disclose such information.

B.AG42. An entity need not disclose information otherwise required by this Standard if law or regulation prohibits the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction to the extent allowed by law and regulation.

Reporting Material Information

B.AG43. An entity should report information in a concise way and aggregate information where useful without omitting necessary details. An entity should consider the appropriate level of aggregation or disaggregation, for example, by geographical location, by nature or by function, in light of all relevant facts and circumstances.

B.AG44. An entity should not obscure material information. Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information. Examples of circumstances that might result in material information being obscured include:

(a) Material information is not clearly distinguished from additional information that is not material;

(b) Material information is disclosed in the climate-related disclosures, but the language used is vague or unclear;

(c) Material information about a climate-related risk or opportunity is unreasonably scattered throughout the climate-related disclosures;

(d) Items of information that are dissimilar are inappropriately aggregated;

(e) Items of information that are similar are inappropriately disaggregated; and

(f) The understandability of the climate-related disclosures is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

B.AG45. An entity shall reassess its materiality judgments at each reporting date to take account of changed circumstances and assumptions. Because of changes in the entity's individual circumstances, or in the external environment, some types of information included in an entity's climate-related disclosures for prior periods might no longer be material. Conversely, some types of information not previously disclosed might become material.

Aggregation and Disaggregation

B.AG46. When an entity applies this Standard, it shall consider all facts and circumstances and decide how to aggregate and disaggregate information in its climate-related disclosures. The entity shall not reduce the understandability of its climate-related disclosures by obscuring material information with immaterial information or by aggregating material items of information that are dissimilar to each other.

B.AG47. An entity shall not aggregate information if doing so would obscure information that is material. Information shall be aggregated if items of information have shared characteristics and shall not be aggregated if they

do not have shared characteristics. For example, the entity might need to disaggregate information about climate-related risks and opportunities by geographical location.

Reporting Entity (paragraph B11)

B.AG48. Climate-related disclosures should be reported for the same reporting entity as the related general purpose financial statements. This enables primary users of general purpose financial reports to understand the effects of climate-related risks and opportunities on the reporting entity's finances.

Connected Information (paragraphs B12–B15)

B.AG49. Paragraph B12 requires an entity to provide information in a manner that enables primary users of general purpose financial reports to understand connections both between the items that could reasonably be expected to affect the entity's long-term fiscal sustainability and between disclosures provided by the entity in its general purpose financial reports.

B.AG50. Connected information provides insight into connections between the items to which the information relates. For example:

(a) If an entity passed a particular climate-related policy that resulted in an increase in the entity's tax revenue, connected information will depict that relationship between the entity's strategy and its financial statements;

(b) If an entity identified a trade-off between two climate-related risks it is exposed to and took action on the basis of its assessment of that trade-off, connected information will depict the relationship between those risks or outcomes and the entity's strategy; and

(c) If an entity committed to a particular climate-related target, but that commitment has not yet affected the entity's financial position, financial performance, and cash flows because the applicable recognition criteria have not been met, connected information will depict that relationship.

B.AG51. Connected information includes:

(a) Connections between various types of information about a particular climate-related risk or opportunity, such as:

(i) Between disclosures on governance, strategy and risk management; and

(ii) Between narrative information and quantitative information (including related metrics and targets and information in the related financial statements); and

(b) Connections between disclosures about various climate-related risks and opportunities. For example, if an entity integrates its oversight of climate-related risks and opportunities, the entity shall integrate the disclosures on governance instead of providing separate disclosures on governance for each climate-related risk and opportunity.

B.AG52. Drawing connections between disclosures involves, but is not limited to, providing necessary explanations and cross-references and using consistent data, assumptions, and units of measure. In providing connected information, an entity shall:

(a) Explain connections between disclosures in a clear and concise manner; and

(b) Disclose information about significant differences between the data and assumptions used in preparing the entity's climate-related disclosures and the data and assumptions used in preparing the related financial statements.

B.AG53. For example, in providing connected information an entity might need to explain the effect or likely effect of its strategy on its financial statements and financial planning, or explain how that strategy relates to the metrics the entity uses to measure progress against targets. Another entity might need to explain how its use of natural resources or changes within its value chain could amplify or, in contrast, reduce its climate-related risks and opportunities. The entity might need to link the information about its use of natural resources or changes within its value chain to information about current or anticipated financial effects, its strategic response to mitigate those risks and its related investment in new assets. The entity might need to link narrative information to the related metrics and targets and to information in the related financial statements.

B.AG54. Other examples of connected information include:

(a) An explanation of the combined effects of the entity's climate-related risks and opportunities and its strategy on its long-term fiscal sustainability over the short, medium and long term. For example, an entity might face social pressure and increasing demand for lower-carbon alternatives. The entity might need to explain how its strategic response, such as transitioning to electric buses, affects the useful lives of its assets and on impairment assessments.

(b) A description of the alternatives that an entity evaluated in setting its strategy in response to its climate-related risks and opportunities, including a description of the trade-offs between those climate-related risks and opportunities . For example, an entity might need to explain the potential effects of retrofitting public buildings with low-carbon heating systems on operating budgets, comfort, and maintenance requirements.

General Requirements

Sources of Guidance (paragraphs B16–B21)

B.AG55. An entity may—to the extent that these sources assist the entity in meeting the objective of this Standard (see paragraphs 1–2) and do not conflict with this Standard—refer to and consider the applicability of sources such as:

(a) IFRS Sustainability Disclosure Standards;

(b) The Global Reporting Initiative Standards;

(c) UN System of Environmental Economic Accounting (UN SEEA); and

(d) Country or region-specific sources (e.g., European Sustainability Reporting Standards).

B.AG56. In applying the sources of guidance specified in paragraph B.AG55, an entity shall not obscure material information required by this Standard (see paragraph B.AG44). If an entity applies the sources of guidance specified in paragraph B.AG55 without applying the requirements in this Standard, the entity shall not make an explicit and unreserved statement of compliance with this Standard.

Information Included by Cross-Reference (paragraph B25)

B.AG57. Information required by this Standard might be available in another report published by the entity. For example, the required information could be disclosed in the related financial statements. Material information can be included in an entity's climate-related disclosures by cross-reference, provided that:

(a) The cross-referenced information is available on the same terms and at the same time as the climate-related disclosures; and

(b) The climate-related disclosures are not made less understandable by including information by cross-reference.

B.AG58. Information included by cross-reference becomes part of the climate-related disclosures and shall comply with the requirements of this Standard. For example, it needs to be relevant, representationally faithful, comparable, verifiable, timely and understandable. The bodies or individuals that authorizes the general purpose financial reports takes the same responsibility for the information included by cross-reference as it does for the information included directly.

B.AG59. If information required by this Standard is included by cross-reference:

(a) The climate-related disclosures shall clearly identify the report within which that information is located and explain how to access that report; and

(b) The cross-reference shall be to a precisely specified part of that report.

Interim Reporting (paragraph B31)

B.AG60. In the interest of timeliness and cost considerations, and to avoid repetition of information previously reported, an entity may be required or choose to provide less information at interim dates than it provides in its annual climate-related disclosures. Interim climate-related disclosures are intended to provide an update on the latest climate-related information. These disclosures focus on new information, events and circumstances and do not duplicate information previously reported. Although the information provided in interim climate-related disclosures may be more condensed than in annual climate-related disclosures, an entity is not prohibited or discouraged from publishing a complete climate-related disclosures report as specified in this Standard as part of its interim general purpose financial report.

Comparative Information (paragraph B32)

B.AG61. Paragraph B32 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period.

Metrics

B.AG62. In some cases, the amount disclosed for a metric is an estimate. Except as specified in paragraph B.AG63, if an entity identifies new information in relation to the estimated amount disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period, the entity shall:

(a) Disclose a revised comparative amount that reflects that new information;

(b) Disclose the difference between the amount disclosed in the preceding period and the revised comparative amount; and

(c) Explain the reasons for revising the comparative amount.

B.AG63. In applying the requirement in paragraph B.AG62, an entity need not disclose a revised comparative amount:

(a) If it is impracticable to do so (see paragraph B.AG66); or

(b) If the metric is forward-looking. Forward-looking metrics relate to possible future actions, events and other conditions. The entity is permitted to revise a comparative amount for a forward-looking metric if doing so does not involve the use of hindsight.

B.AG64. If an entity redefines or replaces a metric in the reporting period, the entity shall:

(a) Disclose a revised comparative amount, unless it is impracticable to do so;

(b) Explain the changes; and

(c) Explain the reasons for those changes, including why the redefined or replacement metric provides more useful information.

B.AG65. If an entity introduces a new metric in the reporting period, it shall disclose a comparative amount for the preceding period for that metric unless it is impracticable to do so.

B.AG66. Sometimes, it is impracticable to revise a comparative amount to achieve comparability with the reporting period. For example, data might not have been collected in the preceding period in a way that allows retrospective application of a new definition of a metric, and it might be impracticable to recreate the data. If it is impracticable to revise a comparative amount for the preceding period, an entity shall disclose that fact.

Errors

B.AG67. Paragraphs B43–B46 requires an entity to correct material prior period errors.

B.AG68. Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for metrics or targets, oversights or misinterpretations of facts, and fraud.

B.AG69. Potential reporting period errors discovered in that period are corrected before the climate-related disclosures are authorized for issue. However, material errors are sometimes not discovered until a subsequent period.

B.AG70. If an entity identifies a material error in its prior period(s) climate-related disclosures, it shall disclose:

(a) The nature of the prior period error;

(b) The correction, to the extent practicable, for each prior period disclosed; and

(c) If correction of the error is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

B.AG71. When it is impracticable to determine the effect of an error on all prior periods presented, the entity shall restate the comparative information to correct the error from the earliest date practicable.

Appendix C: Qualitative Characteristics

This Appendix is an integral part of IPSASB SRS 1.

Introduction

C1. The Conceptual Framework establishes the objective and concepts that underpin general purpose financial reporting by public sector entities.

C2. Climate-related disclosures are part of general purpose financial reports. The qualitative characteristics in the Conceptual Framework, therefore, apply to climate-related information. However, the nature of some of the information required to meet the objective of this Standard (see paragraphs 1–2) differs in some respects from the information provided in general purpose financial statements.

C3. Climate-related information is useful if it has the qualitative characteristics of relevance, faithful representation, understandability, timeliness, comparability and verifiability.

Qualitative Characteristics of Useful Climate-Related Information

Relevance

C4. Climate-related information is relevant if it is capable of making a difference in achieving the reporting objectives of accountability and decision making. Information may be capable of making a difference, and thus be relevant, even if some primary users choose not to take advantage of it or are already aware of it from other sources. It is capable of making a difference in decisions or evaluation of accountability by primary users if it has confirmatory value, predictive value, or both.

C5. Climate-related information has confirmatory value if it confirms or changes past (or present) expectations.

C6. Climate-related information has predictive value in helping form expectations about the future. Climate-related information need not be a prediction or forecast to have predictive value. Climate-related information with predictive value is employed by primary users in making their own predictions. For example, information about water quality, which can include information about the water being polluted, could inform the expectations of primary users about the ability of an entity to meet local water-quality requirements.

C7. The confirmatory and predictive roles of information are interrelated—for example, information for the current year about greenhouse gas emissions, which primary users can use as the basis for predicting greenhouse gas emissions in future years, can also be compared with predictions about greenhouse gas emissions for the current year that were made in past years. The results of those comparisons can help primary users to correct and improve the processes they previously used to make those predictions.

Faithful Representation

C8. To be useful, climate-related information must faithfully represent the substance of the phenomena that it purports to represent. To be a faithful representation, a depiction would be complete, neutral and free from material error.

C9. In practice, it may not be possible to know or confirm whether information presented in general purpose financial reports is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.

C10. An omission of some information can cause the representation of a phenomenon to be false or misleading, and thus not useful to primary users of general purpose financial reports. A complete depiction of a climate-related risk or opportunity includes all material information necessary for primary users to understand that risk or opportunity.

C11. Neutrality in reporting is the absence of bias. It means that the selection and presentation of climate-related information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way primary users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.

C12. Neutral information faithfully represents the phenomena that it purports to represent. However, to require information included in general purpose financial reports to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing primary users' assessments and decisions. Some climate-related information—for example, targets or plans—is aspirational. A neutral discussion of such matters covers both aspirations and the factors or challenges that could prevent an entity from achieving these aspirations.

C13. Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the understatement of opportunities or the overstatement of risks.

C14. The exercise of prudence does not imply a need for asymmetry; for example, a systematic need for more persuasive evidence to support disclosure of climate-related risks than opportunities. Particular standards may contain asymmetric requirements where there is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

C15. The phenomena represented in general purpose financial reports generally occur under conditions of uncertainty. Information included in general purpose financial reports will therefore often include estimates that incorporate management's judgment. To faithfully represent a phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in climate-related information to faithfully represent the phenomena.

C16. Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in the general purpose financial reports—for example, the governance and risk management practices of the entity. However, in other cases it may not—for example, the accuracy of an estimate of Scope 3 greenhouse gas emissions. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

C17. Climate-related information shall be clear and concise. For climate-related disclosures to be concise, they need:

(a) To avoid generic information, sometimes called "boilerplate", that is not specific to the entity;

(b) To avoid duplication of information in the general purpose financial reports, including unnecessary duplication of information also provided in the related financial statements; and

(c) To use clear language and clearly structured sentences and paragraphs.

C18. The clearest form a disclosure can take will depend on the nature of the information and might include tables, graphs or diagrams in addition to narrative text. If graphs or diagrams are used, additional text or tables might be necessary to avoid obscuring material detail.

C19. Clarity might be enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains unchanged, or changes little, from one period to the next—for example, by separately describing features of an entity's climate-related governance and risk management processes that have changed since the previous reporting period.

C20. Disclosures are concise if they include only material information. Any immaterial information included shall be provided in a way that avoids obscuring material information.

C21. Some climate-related information may be particularly complex and might be difficult to present in a manner that is easy to understand. All efforts should be undertaken to represent the information in a manner that is understandable to a wide range of primary users. However, information should not be excluded from climate-related disclosures solely because it may be too complex or difficult for some primary users to understand without assistance.

C22. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability. The completeness, clarity and comparability of climate-related information all rely on information being presented as a coherent whole. For climate-related information to be coherent, it shall be presented in a way that explains the context and the connections between the related items of information.

C23. If climate-related information located in one part of an entity's general purpose financial report has implications for information disclosed in other parts, the entity shall include the information necessary for primary users to assess those implications.

C24. Coherence also requires an entity to provide information in a way that allows primary users to relate information about its climate-related risks and opportunities to information in the entity's financial statements.

Timeliness

C25. Timeliness means having information available for primary users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

Comparability

C26. Comparability is the quality of information that enables primary users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

C27. Comparability differs from consistency. Consistency refers to the use of the same approaches and basis of preparation of climate-related information, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the approaches or methodologies adopted by an entity may be revised to better represent particular climate-related information. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

C28. Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of climate-related information is not enhanced by making unlike things look alike, any more than it is by making like things look different.

Verifiability

C29. Verifiability is the quality of information that helps to give primary users confidence that information in the general purpose financial reports faithfully represents the phenomena that it purports to represent. The characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

(a) The information represents the phenomena that it purports to represent without material error or bias; or

(b) An appropriate recognition, measurement, or representation method has been applied without material error or bias.

C30. To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

C31. The quality of verifiability is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable the information is, the more it will help to give primary users confidence that the information faithfully represents the phenomena that it purports to represent. Climate-related information can be more verifiable by, for example:

(a) Including information that can be corroborated by comparing it with other information available to primary users about an entity's operations, about other entities with similar activities or operations, or about the external environment in which the entity operates;

(b) Providing information about inputs and methods of calculation used to produce estimates or approximations; and

(c) Providing information reviewed and agreed by the entity's governing bodies, committees or equivalent.

C32. Some climate-related information may include financial and other quantitative information and explanations about the anticipated future effects, or prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

C33. To help give primary users confidence that prospective financial and non-financial information and explanations faithfully represent the phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable primary users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Climate-Related Information Included in General Purpose Financial Reports

Materiality

C34. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial reports prepared for that reporting period. Materiality depends on both the nature and magnitude of the item judged in the particular circumstances of each entity.

C35. Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material

in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

Cost-Benefit

C36. Reporting climate-related information imposes costs. The benefits of reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in general purpose financial reports.

C37. The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Primary users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that primary users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by general purpose financial reports.

C38. Preparers expend the majority of the effort to provide climate-related information. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in general purpose financial reports.

C39. Primary users reap the majority of benefits from the climate-related information. However, climate-related information may also be used internally by management and result in better decision making by management. The disclosure of climate-related information consistent with this Standard will enhance and reinforce perceptions of the transparency of climate-related reporting by governments and other public sector entities and may contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from climate-related information provided by general purpose financial reports.

C40. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristic might be sacrificed to some degree to reduce cost.

Balance Between the Qualitative Characteristics

C41. The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

C42. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of climate-related reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of climate-related reporting.

Appendix D: Terms in this IPSASB SRS Standard Defined in IPSAS Standards

This Appendix accompanies, but is not part of, IPSASB SRS 1.

The definitions in this Appendix are taken from the IPSAS Standards Glossary of Defined Terms. These definitions are included for reference only, to provide additional context in understanding and applying the principles of IPSASB SRS 1.

Term	Definition
Acquisition	A public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.
Assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.
Carrying amount of a liability	The amount at which a liability is recognized in the statement of financial position.
Carrying amount of an asset	The amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.
Cash	Comprises cash on hand and demand deposits.
Cash flows	Inflows and outflows of cash and cash equivalents.
Contract	An agreement between two or more parties that creates enforceable rights and obligations.
Control	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits though its power over the other entity.
Controlled entity	An entity that is controlled by another entity.
Credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Decision maker	An entity with decision-making rights that is either a principle or an agent for other parties.
Impairment	A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
Impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
Joint arrangement	An arrangement of which two or more parties have joint control.
Joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Key management personnel	(a) All directors or members of the governing body of the entity; and (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: (i) Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; (ii) Any key advisors of that member; and (iii) Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.
Market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.
Presentation currency	The currency in which financial statements are presented.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.
Taxes	Economic benefits or service potential compulsorily paid or payable to the entity, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.
Transfer	A transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.
Useful life (of a non-cash-generating asset)	Either: (a) The period over which an asset is expected to be used by the entity; or (b) The number of production or similar units expected to be obtained from the asset by an entity.
Useful life (of property, plant, and equipment or an intangible asset)	Either: (a) The period over which an asset is expected to be available for use by an entity; or (b) The number of production or similar units expected to be obtained from the asset by an entity.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSASB SRS 1.

Introduction

BC1. IPSASB SRS 1, *Climate-related Disclosures* is based primarily on IFRS S2 *Climate-related Disclosures* (IFRS S2). Appendix B: General Requirements for Climate-Related Disclosures and Appendix C: Qualitative Characteristics are based primarily on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and the Conceptual Framework, respectively.

BC2. After considering responses to the Consultation Paper (CP), *Advancing Public Sector Sustainability Reporting,* which was published in May 2022, the IPSASB concluded that there was strong support for the proposals in the CP, including:

(a) The need for public sector specific sustainability reporting standards;

(b) That climate-related disclosures should be prioritized as the most urgent topic; and

(c) That it was appropriate to leverage private sector guidance, where relevant, starting with the IFRS Sustainability Disclosure Standards, while also considering the multistakeholder approach from the GRI Standards.

BC3. These conclusions resulted in the development of IPSASB SRS ED 1, *Climate-related Disclosures*.

BC4. Consistent with IPSAS, this Standard is designed to apply to public sector entities that meet all the following three criteria:

(a) Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;

(i) Services encompass goods, services and policy advice, including to other public sector entities;

(b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and

(c) Do not have the primary objective to make profits.

BC5. Adoption of this Standard does not require adoption of IPSAS Standards; entities may choose to adopt either set of standards without the requirement to adopt the other.

BC6. Consistent with the Conceptual Framework, this Standard applies to a wide range of public sector entities, including:

(a) National, regional, state/provincial and local governments;

(b) Government ministries, departments, programs, boards, commissions, agencies;

(c) Public sector social security funds, trusts and statutory authorities; and

(d) International governmental organizations.

BC7. Consistent with IFRS S1 and IFRS S2, this Standard provides proportionality mechanisms for entities, which include:

(a) Using reasonable and supportable information that is available at the reporting date without undue cost or effort, which is applied to:

(i) Identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's long-term fiscal sustainability (see paragraphs 12, B.AG2(a) and B.AG16–B.AG20)

(ii) Determining the scope of its value chain (see paragraph B.AG2(b));

(iii) Disclosures about the anticipated financial effects of a climate-related risk or opportunity (see paragraph 18(a));

(iv) The entity's approach to climate-related scenario analysis (see paragraphs AG23–AG44);

(v) Providing Scope 3 greenhouse gas emissions data that is verified (see paragraph AG79);

(vi) Disclosures on climate-related metrics (see paragraph 29); and

(b) Considering an entity's skills, capabilities and resources, which is applied to:

(i) Disclosures about the anticipated financial effects of a climate-related risk or opportunity (see paragraphs 18(b) and 20); and

(ii) The entity's approach to climate-related scenario analysis (see paragraphs AG23–AG44).

BC8. In aligning with the proportionality mechanisms provided in IFRS S1 and IFRS S2, the IPSASB acknowledged that, although such mechanisms could be perceived as creating opportunities for inconsistent application, they are essential to ensure that the requirements can be applied effectively across public sector entities. The IPSASB noted that these proportionality mechanisms support a capacity-building approach to achieving the objective of this Standard, encouraging entities to strengthen their skills, capabilities, systems, and resources progressively over time.

IPSAS Standards or other GAAP

BC9. The IPSASB considered whether this Standard should refer to IPSAS Standards and other GAAP (see paragraph 5), acknowledging that not all public sector entities apply accrual basis accounting.

BC10. The IPSASB decided that, though this Standard is agnostic on the entity's financial reporting methodology and can be applied by all public sector entities including those on a cash basis of accounting, the use of accrual accounting, together with climate-related reporting, supports better public financial management and sustainable development.

Background

Phased Approach of the IPSASB's Climate-Related Disclosures Project

BC11. As a result of the feedback received from constituents on the IPSASB SRS ED 1, the climate-related disclosures project has been developed across two phases. Phase 1 aligns with IFRS S2 and corresponds to the "Own Operations" perspective described in IPSASB SRS ED 1, while Phase 2 reflects the unique policy and regulatory role of public sector entities, referred to as "Climate-related Public Policy Programs" in IPSASB SRS ED 1. The IPSASB's discussions and deliberations in developing these two phases include:

(a) Drawing on IFRS S1 and IFRS S2, together with public sector-specific adaptations (see paragraphs BC12–BC21);

(b) Recognizing the policy and regulatory role of public sector entities as a distinguishing characteristic that requires public sector-specific disclosures (see paragraphs BC22–BC26); and

(c) Deciding to use two separate standards to address these distinct reporting perspectives, rather than an integrated single standard (see paragraphs BC27–BC29).

Development of IPSASB SRS ED 1, Climate-Related Disclosures

BC12. General purpose financial reports of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

BC13. When developing IPSASB SRS ED 1, the IPSASB drew on the Conceptual Framework and agreed that service recipients and resource providers are the primary users of climate-related disclosures. These include citizens, taxpayers, multilateral or bilateral donor agencies, and lenders that provide resources, such as investors. In addition, representatives of these groups such as the legislature (or a similar body), and members of parliament (or a similar representative body) are also the primary users of climate-related disclosures.

BC14. When developing IPSASB SRS ED 1, the IPSASB decided that the primary users for public sector reports are broader than for private sector reports, where the primary users are existing and potential investors. Based on experience in setting IPSAS, while the information needs of non-investor public sector primary users may align with those of investors in many cases, information needs generally differ where there are transactions unique to the public sector. In the case of sustainability reports, primary user needs will extend beyond the financial effects of climate-related risks and opportunities.

BC15. Therefore, the IPSASB developed the IPSASB SRS ED 1 reflecting the following primary sources:

(a) The CP and feedback from constituents that drive the principles and needs for public sector sustainability reporting;

(b) IPSASB literature, including the Conceptual Framework which addresses general purpose financial reports and non-financial information, provides key public sector concepts (e.g., defines primary users, clarifies the objective of reporting (which is to facilitate accountability and decision making), defines the reporting entity and the qualitative characteristics of reporting) and IPSASB's non-mandatory Recommended Practice Guidelines (RPG); and

(c) International standards, primarily building on the IFRS Sustainability Disclosure Standards drawing from IPSASB's existing *Process for Reviewing and Adapting IASB Documents*.

BC16. During the development of the IPSASB SRS ED 1, the IPSASB considered the challenges to developing public sector-specific sustainability reporting standards, specifically:

(a) The need for public sector specific guidance, given the diversity of services and reporting contexts across different levels of public sector entities;

(b) The need for alignment with private sector guidance where possible and appropriate, given the importance of interoperability due to:

(i) The interconnectivity of value chains across public sector and private sector reporting;

(ii) The significance of sovereign bonds in the global bond market, where investors—one of the primary users of public sector sustainability reporting—provide resources for public sector entities; and

(iii) The growing use of blended finance in addressing climate challenges; and

(c) The need for a climate-related disclosure standard, given the urgency of addressing long-term shifts in temperature and weather patterns, and the importance of the public sector in driving widespread action.

BC17. Given the urgent need for a climate-related reporting standard, the IPSASB considered the extent to which it could leverage private sector guidance, recognizing the potential similarities between the public and private sectors.

BC18. The IPSASB decided that developing guidance aligned with IFRS S1 and IFRS S2 would meet the core information needs of primary users of public sector climate-related disclosures, and would provide information regarding the entity's long-term fiscal sustainability, including efficient delivery of services, that would enable better decision making and accountability.

BC19. Therefore, the IPSASB prioritized aligning with IFRS S1 and IFRS S2 private sector guidance to ensure consistency and interoperability between public sector and private sector reporting, while considering the additional information needs of primary users of public sector climate-related disclosures. This alignment is reflected both in the core text and Application Guidance – where private sector guidance and definitions have been drawn on as directly as possible to meet the objectives of public sector reporting, applying the process from IPSASB's *Process for Reviewing and Adapting IASB Documents*.

BC20. This alignment with IFRS S1 and IFRS S2 private sector guidance was generally supported by respondents to the IPSASB SRS ED 1, which cited benefits such as increasing interoperability with private sector guidance, promoting consistency and comparability between entities and across public and private sectors, enhancing the credibility of public sector climate-related disclosures by drawing on an internationally recognized global baseline, and improving the quality and completeness of climate-related information across the value chain. Respondents also noted that this alignment enables the IPSASB to build on established private sector guidance, facilitating knowledge transfer and capacity building, and supports the timely development of a public sector-specific climate-related disclosures standard.

BC21. In addition to the IPSASB's decision to align with private sector guidance, some respondents noted space for further alignment between IPSASB SRS ED 1 and IFRS S2. They suggested that the IPSASB should prioritize closer alignment with private sector standards and depart only when there is a clear public sector rationale. As a result, in developing this Standard, the IPSASB further prioritized alignment with IFRS S2 while maintaining necessary public sector-specific adaptations, to ensure that any departures from IFRS S2 appropriately reflect public sector-specific differences. This included areas on objective, scope, proportionality mechanisms, strategy (i.e. scenario analysis), and metrics and targets (i.e. remuneration, internal carbon price and third-party validation).

Addressing the Public Sector Policy and Regulatory Role

BC22. As a result of their sovereign powers, governments and other public sector entities have the ability to regulate the activities of other entities, including other public sector entities, private sector entities and/or individuals, either directly or through specifically created agencies. The underlying rationale for such regulation is to safeguard the public interest in accordance with specified public policy objectives, such as combating climate change. Therefore, the IPSASB decided that in addition to aligning with the IFRS S1 and IFRS S2 private sector guidance, the policy and regulatory role of public sector entities is a key characteristic that requires public sector-specific disclosures. This public policy role differentiates public sector entities from the private sector.

BC23. As part of the IPSASB SRS ED 1, the IPSASB proposed that in addition to disclosures on an entity's climate-related risks and opportunities in its day-to-day operations (referred to as "Own Operations" in the IPSASB SRS ED 1), entities should also provide disclosures on the outcomes that could reasonably be expected as a result of its climate-related public policy programs. In the IPSASB SRS ED 1, climate-related public policy programs referred to any type or set of interventions taken or mandated by a public sector entity exercising its sovereign powers to influence the decisions or behaviors of other entities or individuals, with a primary objective to achieve climate-related outcomes. The IPSASB proposed addressing these dual

reporting perspectives through a single standard with further clarification in two sections of Application Guidance.

BC24. In developing the IPSASB SRS ED 1, the IPSASB noted that the “Own Operations” reporting perspective described in the IPSASB SRS ED 1 is expected to be applicable to most public sector entities. For instance, an entity with a policy or regulatory function is also expected to have activities in its operational model, such as managing staff and facilities, that may give rise to climate-related risks and opportunities.

BC25. Responses to the Exposure Draft raised concerns on the two reporting perspectives of the IPSASB SRS ED 1 being combined into one standard, with some noting that separate standards would enhance clarity and the distinct nature of each reporting perspective. The IPSASB noted that a substantial number of comments were received on the proposed disclosure requirements on an entity’s climate-related public policy programs, and identified a number of key issues raised by respondents that require further deliberation.

BC26. In response to consultation feedback, the IPSASB decided that it was appropriate to address the two reporting perspectives in two phases, and therefore developed two separate standards as part of its climate-related disclosures project: Phase 1, which refers to the “Own Operations” reporting perspective described in IPSASB SRS ED 1, and Phase 2, which refers to the “Public Policy Programs” reporting perspective in IPSASB SRS ED 1. The IPSASB decided that this was a pragmatic approach considering the clearer resulting guidance, ease of navigating the Standard, timeliness of issuing guidance, and the reduced initial reporting burden to support the adoption and implementation of the Standard.

IPSASB SRS 1, Climate-related Disclosures

BC27. As a result of the IPSASB's decision to develop two separate standards, the Board concluded that Phase 1 of its climate-related disclosures project will provide guidance that is aligned with IFRS S2, incorporating the public sector context proposed in the IPSASB SRS ED 1. Therefore, in alignment with private sector guidance, Phase 1 of the project will be named “IPSASB SRS 1, *Climate-related Disclosures*”.

BC28. The IPSASB also decided that it was appropriate to maintain the overall structure of the IPSASB SRS ED 1 in developing this Standard, while removing the relevant climate-related public policy program guidance. As a result, this Standard is aligned with the structure of the IPSASB SRS ED 1, with the exception of the removal of Appendix A2: Climate-related Public Policy Programs.

BC29. Further, a respondent to the IPSASB SRS ED 1 observed that the term “Own Operations”, which is used in the IPSASB SRS ED 1 to refer to all the activities in an entity’s operational model in the IPSASB SRS ED 1, is informally associated with Scopes 1 and 2 emissions in the Greenhouse Gas Protocol. In developing this Standard, the IPSASB decided to remove references to the term “Own Operations”. This was to avoid the unintended association with terminology used outside of IPSASB literature and to increase alignment with private sector guidance. Therefore, this Standard no longer uses the term “Own Operations”.

Objective and Scope

BC30. At the time of developing this Standard, the latest international agreements on climate change were the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).

BC31. Many countries have signed or ratified the latest international agreements on climate change, made national commitments enforceable through legislation, and/or developed national transition and adaptation plans. Consistent with these requirements and the Conceptual Framework, the objective of this Standard is to provide information for primary users that support decision making and accountability for the actions taken to deliver on these international commitments. Reporting and disclosure are not aims in and of themselves,

but should help encourage changes in individual and organizational behaviors and global actions more broadly that are needed to combat climate change.

BC32. The IPSASB acknowledged that not all countries have signed or will sign the latest international agreements on climate change and that each country's national strategies provide more specific commitments. However, the IPSASB decided that it was important for the Standard to be capable of being used to support accountability for the delivery of climate change programs in accordance with the latest international agreements.

Long-Term Fiscal Sustainability

BC33. In developing the IPSASB SRS ED 1 and aligning the core guidance with IFRS S2, the IPSASB decided that the focus on "the entity's cash flows, its access to finance or cost of capital over the short-, medium- or long-term" or "the entity's prospects" needed to be augmented for the public sector. The IPSASB decided that the information needs of primary users of public sector climate-related disclosures should also include the effects on an entity's services and resources.

BC34. The IPSASB decided that for public sector entities this broader concept of "an entity's prospects" was already captured by the concept of "long-term fiscal sustainability" as defined in RPG 1, *Reporting on the Long-term Sustainability of an Entity's Finances,* that is "the ability of an entity to meet service delivery and financial commitments, both now and in the future".

BC35. RPG 1 addresses the complex operational model for public sector entities, including each of the interrelated dimensions of long-term fiscal sustainability, comprising services, revenue and debt, and was amended in May 2023 to provide implementation guidance to explain its applicability to reporting information on the impact of sustainability programs.

Definitions

BC36. In developing IPSASB SRS ED 1 and adapting IFRS S2 for the public sector context, the IPSASB determined that the term "business model" should be adapted for the public sector. Accordingly, the IPSASB drew on the concepts in RPG 3, *Reporting Service Performance Information*, including the relationships among "inputs", "outputs", and "outcomes". The IPSASB decided that the term "operational model" appropriately parallels the notion of a "business model" in IFRS S2 for the public sector, and provides a basis for identifying an entity's climate-related risks and opportunities.

BC37. The IPSASB acknowledged that there are evolving terminologies and methodologies for valuing greenhouse gas externalities, such as "internal carbon pricing". The IPSASB explored the applicability of the terminology internationally, its applicability to public sector entities, and the importance of distinguishing internal carbon prices from the market price of carbon. In reviewing this analysis, the IPSASB decided that it was appropriate to align the terminology and definition of "internal carbon pricing" with IFRS S2, along with additional Application Guidance to provide public sector context.

BC38. Some respondents to the IPSASB SRS ED 1 noted that certain terms were not defined. The IPSASB noted that these terms are already defined in the IPSAS Standards. However, as the IPSASB SRS is designed to be applied irrespective of whether the entity's financial statements are prepared in accordance with IPSAS Standards, the IPSASB decided that it was appropriate to set out terms defined in IPSAS Standards in a non-authoritative Appendix (see Appendix D: Terms in this IPSASB SRS Standard Defined in IPSAS Standards), in line with the approach in RPG 1, to provide additional context in understanding and applying the principles of IPSASB SRS 1.

BC39. Responses to the IPSASB SRS ED 1 also included some suggested modifications to the proposed definitions that are aligned with IFRS S2, including "climate resilience", "global warming potential", "greenhouse gases",

and “value chain”. The IPSASB decided that the proposed definitions provide appropriate guidance for public sector entities, and did not identify any public sector-specific justification to depart from the definitions used in private sector guidance.

Governance

BC40. The IPSASB acknowledged that public sector entities worldwide do not operate within a common legislative framework, nor do they have standard organizational structures, shapes or sizes.

BC41. Despite the variation in governance structures, public sector entities share the same public interest objective of enhancing or maintaining the well-being of citizens. Public sector governance can be described as the arrangements put in place to ensure the intended outcomes for stakeholders are defined and achieved, which include political, economic, social, environmental, legal and administrative structures and processes, and other arrangements. Therefore, the IPSASB decided that the primary user information needs relating to governance processes, controls and procedures are similar to those for primary users of private sector entity reporting, and that private sector guidance should be leveraged, with additional Application Guidance addressing public sector differences.

Strategy

BC42. The IPSASB decided that the primary user information needs relating to an organization’s strategy for managing climate-related risks and opportunities in the public sector are in many cases the same or very similar to those for primary users of private sector entity reporting. However, Application Guidance would be needed to clarify how the principles and disclosure requirements apply in the public sector context.

Strategy and Decision Making

BC43. The IPSASB acknowledged that the strategy for public sector entities may differ across functions, levels of government and jurisdictions. In some cases, entities may have significant operational freedoms to determine their own strategy to address climate-related risks and opportunities and therefore climate-related scenario analysis may support and inform their assessment of climate resilience.

BC44. On the other hand, some entities may have limited operational freedom, regulated by the mandates and responsibilities determined by a higher level of government.

BC45. However, one of the objectives of reporting climate-related information is to hold entities accountable for their activities and contributions to climate commitments. The IPSASB decided it is important that reporting at the entity level enables accountability. Entities are therefore encouraged to consider their activities and contributions to climate commitments within their levels of operational freedom and organizational mandates and provide disclosures that are determined to be material for the primary users of their general purpose financial reports.

BC46. A few respondents to the IPSASB SRS ED 1 expressed concern that the proposed disclosure requirements were overly focused on mitigation efforts, such as greenhouse gas reduction, while giving insufficient emphasis to adaptation and climate resilience. The IPSASB acknowledge the importance of both mitigation and adaptation in climate action, however, decided that this Standard provides adequate disclosure requirements on both aspects. For example, an entity is required to disclose information about its current and anticipated direct and indirect mitigation and adaptation efforts in its strategy and decision making.

Climate Resilience

BC47. One respondent to the IPSASB SRS ED 1 posed that, in addition to scenario analysis, the Standard should require climate stress testing to ensure the long-term fiscal sustainability of the public sector entity. The IPSASB considered that the terms “stress testing” and “scenario analysis” are, in many cases, used

interchangeably in practice, and did not identify a public sector-specific reason to depart from the proposed guidance.

Risk Management

BC48. The IPSASB decided that the primary user information needs relating to risk management for a public sector entity are in many cases the same or very similar to those for primary users of private sector entity reporting. However, Application Guidance would be needed to clarify how the principles and disclosure requirements apply in the public sector context.

BC49. The IPSASB discussed the differences between public sector and private sector risk management practices and noted that although the practices are similar, it is the nature and type of risks faced that are significantly different.

BC50. The IPSASB acknowledged that many countries have established national transition and adaptation plans which may be based on detailed national risk assessments. Therefore, the IPSASB decided that these can be a critical resource for many public sector entities which can be leveraged as part of the entity's risk management processes.

Metrics and Targets

BC51. When developing IPSASB SRS ED 1, the IPSASB decided that a rebuttable presumption, that entities measure its greenhouse gas emissions using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (Greenhouse Gas Protocol), was necessary to steer entities towards the same direction, enhancing consistency and comparability. This approach is intended to promote standardized greenhouse gas methodologies and to facilitate better data interoperability between entities.

BC52. As part of this rebuttable presumption, when developing IPSASB SRS ED 1, the IPSASB decided that to encourage adoption of this Standard, flexibility should be provided for preparers to use methodologies other than the Greenhouse Gas Protocol. This decision acknowledges that jurisdictions may have local approaches for national or subnational reporting and aims to alleviate any additional burden in requiring dual reporting or an immediate move to the Greenhouse Gas Protocol. In determining their approach, the IPSASB encourages entities to consider the primary users of the information and their specific needs. For instance, if primary users are donor agencies, the Greenhouse Gas Protocol might be a more appropriate methodology as donor agencies may need consistent and comparable information about the climate-related risks and opportunities upstream and downstream of entities' value chains.

BC53. As value chains may comprise both public and private sector entities, the IPSASB could not identify a public sector specific reason to depart from the Greenhouse Gas Protocol when developing the IPSASB SRS ED 1. Therefore, the IPSASB decided to align the definitions of Scopes 1, 2, and 3 with the Greenhouse Gas Protocol to ensure consistency and clarity in reporting and interpretation. However, the IPSASB acknowledged that the Greenhouse Gas Protocol was designed for the private sector and does not address Scope 3 greenhouse gas emissions relating to the "outcomes of climate-related public policy programs" as referred to in the IPSASB SRS ED 1. At the same time, Scope 3 greenhouse gas emissions are still expected to arise for an entity with a policy or regulatory role. To illustrate this point, the IPSASB considered it appropriate to provide further clarification through illustrative examples (see paragraph IE25–IE29), demonstrating that Scope 3 greenhouse gas emissions may also arise from an entity with a policy design function.

BC54. Respondents to the IPSASB SRS ED 1 generally supported the proposed rebuttable presumption for the reasons of increased consistency and comparability, streamlining reporting processes, reducing transition costs, allowing for national or sector-specific requirements, as well as the principles-based approach provided by the Greenhouse Gas Protocol.

BC55. However, there were also other views on the rebuttable presumption proposed in IPSASB SRS ED 1. Some suggested the Greenhouse Gas Protocol should be presented as a recommendation rather than a rebuttable presumption, to allow for greater jurisdictional flexibility. Others raised concerns that a rebuttable presumption could compromise consistency and comparability, potentially reducing the usefulness of reported information.

BC56. On balance, the IPSASB decided that due to the reasons articulated, the existing rebuttable presumption that entities use the Greenhouse Gas Protocol provides a pragmatic balance between global alignment and local adaptability, and should therefore be retained in the Standard.

BC57. A few responses to the IPSASB SRS ED 1 suggested that the IPSASB provided more specific guidance on consolidation, including consolidation complications in jurisdictions with heterogenous sustainability reporting standards. The IPSASB noted that consolidation considerations primarily arise in relation to the metrics and targets pillar, particularly in the context of reporting greenhouse gas emissions. The IPSASB considered the widespread use of the Greenhouse Gas Protocol, and decided that there would not be significant divergence from other international sustainability reporting standards. Further, the IPSASB considered that the approach to consolidation in IPSAS Standards is fully aligned with private sector guidance. Therefore, the IPSASB decided that the proposed guidance in the IPSASB SRS ED 1 was appropriate for public sector entities.

BC58. One respondent to IPSASB SRS ED 1 suggested that entities be required to disclose a summary statement of greenhouse gas emissions to provide users with a comprehensive view of the entity's overall climate impact. The IPSASB acknowledged that such a summary may be a useful way for some entities to present climate-related information; however, it concluded that the Standard should remain principles-based, allowing entities flexibility in how disclosures are structured and communicated. Accordingly, while entities may choose to include a summary of greenhouse gas emissions, the IPSASB decided that this should remain at their discretion.

Scope 2 Greenhouse Gas Emissions

BC59. The IPSASB recognized the two approaches towards calculating Scope 2 greenhouse gas emissions, location-based approach and market-based approach, and decided to require the location-based approach only, along with disclosures on any contractual instruments into which the entity has entered, in alignment with private sector guidance, and to enhance comparability between Scope 2 greenhouse gas emissions disclosures without undue burden on entities.

Scope 3 Greenhouse Gas Emissions

BC60. When developing the IPSASB SRS ED 1, the IPSASB recognized the complexities and resource requirements surrounding Scope 3 greenhouse gas emissions. However, the disclosure of Scope 3 greenhouse gas emissions and categories is subject to materiality considerations; hence, entities are not required to measure and disclose all Scope 3 greenhouse gas emissions, because value chain emissions and hotspots vary between entities. Therefore, the IPSASB decided that it is important for entities to monitor and manage emissions along their value chains, both in the global public interest and for accountability reasons.

BC61. When developing the IPSASB SRS ED 1, the IPSASB acknowledged that while Scope 3 Category 15 – Financed Emissions may be relevant for public sector entities that provide financial services, the IPSASB expected that this category will be applicable to only a subset of entities. Those entities where Category 15 is material may consider referring to other sources of guidance such as Greenhouse Gas Protocol or the Partnership for Carbon Accounting Financials (PCAF).

BC62. Responses to the IPSASB SRS ED 1 were mixed, with a group of respondents supporting mandatory disclosures of Scope 3 greenhouse gas emissions. However, some argued that the practical and cost-related challenges justify a voluntary or phased approach. In addition, another group of respondents raised concerns

about the cost, complexity, and limited relevance of Scope 3 information, particularly for public sector entities involved in regulatory or service delivery functions.

BC63. Considering the usefulness of the disclosures based on responses received from users, including investors, as well as jurisdictional examples demonstrating the feasibility of public sector reporting on Scope 3 greenhouse gas emissions, the IPSASB decided that disclosures on Scope 3 greenhouse gas emissions are essential for presenting a comprehensive picture of an entity's climate action, and should be required in the Standard.

BC64. Entities that are using methodologies in line with the Greenhouse Gas Protocol might find it useful to refer to the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) for additional guidance and examples. In consideration of the practical challenges presented by respondents to the IPSASB SRS ED 1, the IPSASB decided that it was appropriate to develop guidance for the application of Scope 3 greenhouse gas emissions in the public sector context during the implementation phase of the project. In addition, the IPSASB considered the complexity of public sector value chains and decided to extend the transition timeline for disclosing Scope 3 greenhouse gas emissions from one year to three years.

Metric Categories

BC65. The IPSASB considered whether disclosures relating to remuneration tied to climate factors would be applicable for the public sector. While the IPSASB acknowledged that this is expected to be infrequent in the public sector, the IPSASB concluded that it was prudent to incorporate this aspect in this Standard to encourage such disclosures in circumstances where they may be applicable. The IPSASB decided that it was appropriate to require disclosure of remuneration to "key management personnel", aligned with public sector terminology used in IPSAS 20, *Related Party Disclosures*, while adding conditionality to reflect the expected infrequency of such arrangements in the public sector. Accordingly, entities would not be required to make these disclosures if climate-related considerations are not directly factored into the remuneration of key management personnel.

BC66. In drafting the IPSASB SRS ED 1, the IPSASB considered the public sector relevance of the capital deployment disclosure requirement under paragraph 29(e) of IFRS S2. While the requirement was initially not included in the IPSASB SRS ED 1, one respondent emphasized the importance of retaining the disclosure requirement, noting that public sector entities, like private sector entities, also make decisions about funding allocation. The respondent noted that the extent to which these entities allocate funding to climate-related issues in alignment with their strategy, and the ability to compare these decisions across the public sector, provides decision-useful information to users – including budgetary decision makers. In consideration of its relevance to the public sector, disclosure requirements on capital deployment, along with the associated implementation guidance (see paragraph IG1), have been incorporated into this Standard in line with private sector guidance.

BC67. One respondent to the IPSASB SRS ED 1 noted that in addition to law and regulation, the IPSASB should acknowledge that government policy can also drive the climate-related targets public sector entities are expected to work towards. The IPSASB decided that this concern was appropriately addressed in the proposed guidance, which requires disclosure of how the latest international climate agreements and jurisdictional commitments have informed each target, and highlights the need to consider an entity's own activities, relationships, and stakeholders, as well as the broader sustainability context, including national targets and commitments relevant to subnational entities.

BC68. Another respondent to the IPSASB SRS ED 1 suggested that the Standard should require disclosure of carbon credits purchased, rather than solely focusing on the entity's planned use of carbon credits. The IPSASB noted that the purchase of carbon credits is a financial transaction and should be recognized in an entity's financial statements. In addition, AG94 states that entities may also disclose carbon credits already

purchased if they are intended to be used toward meeting net greenhouse gas emissions targets. Overall, the IPSASB decided that the guidance does not preclude entities from disclosing carbon credits purchased, and did not identify a public sector-specific reason to depart from private sector guidance.

Peer Metrics

BC69. The IPSASB acknowledged the importance of industry-based guidance to support preparers and standardized reporting. There is no current public sector equivalent to the industry-based guidance at the time of developing this Standard; however, there may be certain functions of government that can consider private sector industry metrics, such as in healthcare or education.

BC70. The IPSASB decided that the term “peer metrics” is more appropriate for the public sector instead of “industry-based metrics”, as used in the IFRS S2. In particular, it was more appropriate for a public sector entity to consider metrics that are associated with operational models, activities, or other common features that are similar to other entities – such as similar categories of functions of government. Overall, the IPSASB considered that peer metrics may only be relevant for some public sector entities and decided that entities may refer to and consider the applicability of peer metrics where appropriate.

BC71. To support entities in considering peer metrics, the IPSASB considered that the Classification of Functions of Government (COFOG) from statistical reporting could provide a framework for the future development and application of peer metrics across the various generic functions undertaken by public sector organizations across many jurisdictions.

BC72. In the interim, the IPSASB noted that the SASB Standards and GRI Sector Standards could be applicable to certain categories of activity defined in COFOG and may therefore be useful for some public sector entities. Therefore, as part of an entity’s peer metrics, the IPSASB decided that SASB Standards and GRI Sector Standards should not be required for public sector entities, but could be considered to the extent they are relevant.

Climate-Related Targets

BC73. In disclosing an entity’s approach to setting and reviewing each target, and how it monitors progress against each target, the IPSASB noted that such validation processes may be more common in the private sector, in response to investor needs. Therefore, the IPSASB considered it appropriate to provide greater flexibility for public sector entities in providing disclosures regarding the validation process in setting climate-related targets. This approach maintains the expectation for transparency, while recognizing that public sector entities may rely on other oversight mechanisms.

Effective Date

BC74. The IPSASB considered the balance between addressing significant stakeholder demand for timely guidance for climate-related disclosures in the public sector, acknowledging that this Standard introduces a relatively new and complex reporting area for most public sector entities. Therefore, the IPSASB set an effective date of January 1, 2028, with earlier application permitted for entities that may wish to do so.

Transition

BC75. The IPSASB acknowledged the significant challenges to implementing climate-related reporting in the public sector. After consultation with the IPSASB Sustainability Reference Group, the IPSASB decided to propose a transition approach aligned with the private sector, given the urgent need for transparency and accountability for government initiatives to support climate action, and the need for public sector leadership on meeting climate targets.

BC76. Responses to the IPSASB SRS ED 1 generally agreed that the proposed areas for transition relief were appropriate. Despite general agreement on the importance of transition relief for Scope 3 greenhouse gas emissions, most respondents expressed the view that the one-year transition relief for Scope 3 greenhouse gas emissions reporting would be insufficient for building the necessary processes and systems to capture Scope 3 greenhouse gas emissions data across complex public-sector value chains.

BC77. Overall, acknowledging the widespread call for additional time to build capacity and systems for Scope 3 greenhouse gas emissions reporting, the ongoing revisions to the Greenhouse Gas Protocol at the time of developing this Standard, while also considering the urgency of climate action and importance of meeting stakeholder expectations, the IPSASB decided that a three-year transition period is appropriate for public sector entities in reporting their Scope 3 greenhouse gas emissions.

BC78. In addition, a few respondents emphasized the importance of considering trade-offs and just transition, particularly in balancing financial constraints with the need for climate-related disclosures in developing economies and smaller public sector entities. The IPSASB considered these concerns in reaching its decisions on retaining the proposed areas for transition relief and extending the transition period for Scope 3 greenhouse gas emissions. Overall, the IPSASB decided that the transition reliefs provided, together with the proportionality mechanisms built into this Standard (see paragraph BC7), appropriately balance feasibility for preparers with the urgency of climate action.

Conceptual Foundations

BC79. In the absence of a framework for sustainability reporting, this Standard includes guidance on conceptual foundations, including the qualitative characteristics of reporting climate-related information, set out in Appendix B: General Requirements for Climate-Related Disclosures and Appendix C: Qualitative Characteristics. This guidance, adapted from IFRS S1 and the Conceptual Framework, is intended to ensure that information in climate-related disclosures is useful to primary users of general purpose financial reports, and provides information to assist an entity in the preparation of climate-related disclosures.

Determining Material Information for Disclosure

BC80. The IPSASB acknowledges that there are varying approaches and guidance to determining material information across different sustainability standards. The IPSASB decided that the steps to reporting appropriate information for the public sector disclosures include:

(a) Step 1 - Understanding the entity’s context;

(b) Step 2 - Identifying climate-related risks and opportunities; and

(c) Step 3 - Determining material information.

BC81. This approach primarily aligns with IFRS S1 but incorporates GRI guidance on understanding the entity’s context and engaging stakeholders.

BC82. Step 1 is based on the first step in GRI 3 to determining material topics, which provides guidance on considering the entity’s activities, relationships, stakeholders and context. The IPSASB decided that this is an important step to include for the public sector, given the broad reach and responsibilities of the public sector. It is important for entities to understand their own activities, relationships, and stakeholders, as well as the broader sustainability context including, for example, national targets and commitments to which a subnational entity contributes.

BC83. As part of understanding an entity’s context, the IPSASB considered the importance of the perspectives of indigenous peoples in sustainable development and therefore decided to add the UN Declaration of Rights of Indigenous Peoples as another authoritative intergovernmental instrument setting expectations for responsible conduct for understanding the broader climate context (see paragraph B.AG11).

BC84. Step 2 and Step 3 mirror IFRS S1 guidance on identifying risks and opportunities and determining material information related to the identified risks and opportunities. Additional guidance from GRI was leveraged to provide guidance on stakeholder engagement. The IPSASB decided that Step 2 and Step 3, which align with the IFRS S1 approach, are appropriate because:

(a) The purpose of the process is to determine material information for reporting (compared with other approaches that identify material topics rather than determine material information);

(b) The concept of materiality requires judgments about information from a quantitative and qualitative perspective (which is consistent with the approach to materiality for IFRS Sustainability Disclosure Standards on which Step 2 and Step 3 are based); and

(c) Guidance on engaging stakeholders is needed for the public sector, which is based on GRI 3 Material Topics 2021, given the demand for a multistakeholder approach in public sector reporting.

Materiality

BC85. When developing the IPSASB SRS ED 1, the IPSASB discussed the concepts of “single” or “financial” materiality versus “double” or “financial and impact” materiality. The IPSASB decided that the approach to determining materiality should mirror the approaches used in the financial statements and the Conceptual Framework, which are also aligned with IFRS Sustainability Disclosure Standards. Therefore, the IPSASB determined that using the definition of material information from the Conceptual Framework is appropriate for climate-related disclosures given:

(a) **The primary users** of public sector general purpose financial reports are service recipients and their representatives and resource providers and their representatives according to the Conceptual Framework;

(b) **The objectives** of reporting are to support primary users in evaluating information for decision making and accountability purposes. This extends beyond the private sector focus on decision making solely for capital allocation purposes. The principles of decision making and accountability apply equally to climate-related reporting as to financial reporting for the public sector because of the need for accountability from a public interest perspective;

(c) **Connectivity** between financial and climate-related reporting is supported by aligning definitions of materiality across suites of reporting standards.

BC86. Materiality is classified as a constraint on information included in general purpose financial reports in the Conceptual Framework. In developing this Standard, the IPSASB has considered the materiality of the consequences of disclosure requirements of a particular item or type of information. Subject to the requirements of this Standard, entities preparing disclosures of climate-related information will also consider the materiality of the separate disclosure of particular items of information.

BC87. The IPSASB decided that materiality is a pervasive concept throughout this Standard, guiding assessments of whether an omission or misstatement could influence primary users' decisions and therefore be deemed material. This Standard provides guidance that materiality assessments involve understanding that primary users are assumed to have a reasonable knowledge of the public sector and its activities and accounting, and a willingness to study the information with reasonable diligence. Accordingly, this Standard takes into account how primary users, with such attributes, could reasonably be expected to be influenced in making and evaluating decisions.

BC88. Significant judgment is required in determining whether information is material to primary users. This Standard provides additional guidance addressing the nature of risks and opportunities, which are commonly considered when determining the materiality of information.

BC89. When developing the IPSASB SRS ED 1, the IPSASB considered whether information that is sensitive and/or confidential should be excluded from disclosure. The IPSASB decided that such information in the public sector is expected to be rare and should not be excluded in the public interest. An entity should evaluate the needs of the primary user in light of any applicable legal requirements.

BC90. Responses to the IPSASB SRS ED 1 revealed diverse interpretations to the proposed materiality definition, with interpretations often linking to external materiality labels such as “financial”, “double”, and “impact”, which exist outside the IPSASB literature. While some respondents interpreted the proposed materiality definition as “financial materiality”, others observed that the broader stakeholder group and emphasis on accountability to meet primary users’ information needs can be interpreted as “double materiality”.

BC91. Considering the range of interpretations, the IPSASB decided that while the proposed definition of materiality was appropriate, further clarity needs to be provided for preparers in applying the materiality definition. As a result, the IPSASB agreed to prioritize the development of non-authoritative educational material on materiality for sustainability reporting, adapted from existing private sector guidance, to support preparers with applying the materiality definition.

Cost-Benefit

BC92. In developing this Standard, the IPSASB considered information from preparers, primary users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure requirements which result in the presentation of climate-related information useful to primary users for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by this Standard when the benefits of compliance with those disclosures requirements are assessed by the IPSASB to justify their costs.

Reporting Entity

BC93. The Conceptual Framework sets out the types of entities that are considered public sector entities. In drawing from the Conceptual Framework, the IPSASB decided that this Standard should remain focused on reporting by the same entity that prepares the financial statements. A focus on the same reporting entity as for the financial statements has the benefit of following lines of control and supporting organization-focused accountability, while also facilitating both collection of climate-related risks and opportunities for the entity and the integration of such information with financial information in the entity’s financial statements.

General Requirements

BC94. When developing the IPSASB SRS ED 1, the IPSASB determined that the general requirements on location of disclosures, timing of reporting, comparative information, judgments, measurement uncertainty and errors from IFRS S1 are appropriate for the public sector.

BC95. The IPSASB further considered the requirement to revise comparative information to reflect updated estimates and decided to align with IFRS S1, which includes an impracticability exemption that applies to the correction of errors and when the entity redefines or replaces a metric. The requirement is scoped such that it does not mandate entities to review and revise all previously reported estimates, while ensuring that the information provided is useful for primary users without imposing undue burden on preparers.

BC96. The IPSASB also decided that the general requirements on sources of guidance from IFRS S1 are applicable, with necessary climate-specific adaptations. Additionally, the IPSASB decided that public sector entities should be provided with flexibility to consider the applicability of sources, including the SASB Standards and GRI Sector Standards.

BC97. The IPSASB acknowledged that there may be significant measurement uncertainty in relation to climate-related metrics. Further, the IPSASB acknowledged that both quantitative and qualitative metrics can

generally provide useful information; however, high levels of measurement uncertainty could potentially diminish the reliability of an estimate in providing useful information.

BC98. Responses generally supported the proposed alignment of the general requirements with IFRS S1, noting that this alignment with IFRS S1 fosters consistency and enhances comparability between the private and public sectors. There was also additional feedback, where some respondents suggested that the IPSASB should provide General Requirements in a separate standard, establishing an overarching framework to guide emerging information needs across a range of sustainability-related topics. The IPSASB acknowledged the importance of developing general sustainability-related disclosures guidance, and in consideration of resources available, decided that this would be an option for the future work program as the IPSASB develops its suite of IPSASB SRS Standards.

BC99. In addition, some respondents highlighted challenges to simultaneously providing sustainability and financial reporting within general purpose financial reports. Respondents pointed to challenges such as the timing and availability of secondary data with the financial reporting cycle, resource constraints in collecting and compiling climate information on an annual basis, and whether assurance requirements on financial statements would be expected to be applied to climate-related disclosures. While the IPSASB acknowledge that there may be implementation challenges to the proposed timing of reporting and location of disclosures, the IPSASB decided that existing guidance should appropriately address the issues raised, including transition reliefs (see paragraphs 39–43), using secondary data sources that rely on information collected in a different reporting period (see paragraphs AG76–AG77), including material information by cross-reference provided that the information is available on the same terms and at the same time (see paragraph B.AG57), and uses the same proportionality mechanisms (see paragraph BC7).

BC100. One respondent suggested that the proposed climate-related disclosures should be better integrated with the financial statements. The IPSASB noted that the proposed climate-related disclosures are intended to be a part of general purpose financial reports, and are consistent with the Conceptual Framework. Accordingly, these disclosures are expected to be situated within the broader financial report, even if they are presented outside the financial statements themselves. Overall, the IPSASB decided that the proposed approach ensures appropriate connectivity with the financial statements.

Statement of Compliance

BC101. A respondent to IPSASB SRS ED 1 suggested that the IPSASB consider allowing partial statements of compliance to support broader adoption, acknowledging that full compliance may take several years to achieve. The IPSASB acknowledged that such an approach could facilitate adoption; however, the IPSASB decided that this Standard already provides appropriate transition relief to address this concern.

Implementation Guidance and Illustrative Examples

BC102. The IPSASB considered the public sector applicability of the Accompanying Guidance on IFRS S1 and the Accompanying Guidance on IFRS S2 and decided to include implementation guidance and illustrative examples that are applicable to the public sector context.

BC103. However, the IPSASB decided not to adopt the industry-based guidance from the Accompanying Guidance on IFRS S2, considering this to be relevant only to a limited subset of public sector entities. The IPSASB concluded that it was more appropriate to refer to the SASB and GRI sector standards as optional resources.

BC104. In addition to implementation guidance and illustrative examples adapted from the Accompanying Guidance on IFRS S1 and the Accompanying Guidance on IFRS S2, the IPSASB decided that additional public sector-specific implementation guidance and illustrative examples should be provided on selected topics. This includes additional illustrative examples on the disaggregation of Scopes 1, 2, and 3 greenhouse gas

emissions between public sector functions, as well as additional illustrative guidance to address the disclosure of climate financing mechanisms within this Standard.

BC105. Following the decision to separate the requirements for own operations and public policy programs into two Standards, the IPSASB reviewed the implementation guidance and illustrative examples to ensure clarity regarding Scope 3 greenhouse gas emissions, particularly as it relates to the “outcomes of climate-related public policy programs” as referred to in the IPSASB SRS ED 1. As a result, the IPSASB decided to add implementation guidance (see paragraph IG2) to clarify an entity’s considerations when disclosing its Scope 3 greenhouse gas emissions.

Implementation Guidance

This guidance accompanies, but is not part of, IPSASB SRS 1.

Climate-Related Metrics

IG1. **Which metrics should an entity disclose in relation to the metric categories in paragraphs 28(b)–(e) of this Standard?**

Paragraph 28 of this Standard requires an entity to disclose information relevant to particular metric categories. These examples provide an illustration of such information for the requirements in paragraphs 28(b)–(e) of this Standard.

Metric category	Unit of measure	Example metrics
Climate-related transition risks	Amount and percentage	• Amount or percentage of assets that could become stranded or impaired • Amount or percentage of carbon-related assets (i.e., assets tied to fuel and energy functions)
Climate-related physical risks	Amount and percentage	• Proportion of property or infrastructure in areas subject to flooding, heat stress or water stress • Proportion of real assets exposed to climate-related hazards • Wastewater treatment capacity located in 100-year flood zones • Revenue associated with water withdrawn and consumed in regions of high or extremely high baseline water stress
Climate-related opportunities	Amount and percentage	• Goods or services that support the transition to a lower carbon economy • Investments and programs related to energy efficiency and lower carbon technology • Number of (1) zero-emissions vehicles, (2) hybrid vehicles and (3) plug-in hybrid vehicles in operating fleet • Proportion of buildings certified to a third-party, multi-attribute, green-building standard
Capital deployment	Presentation currency	• Percentage of annual capital expenditure allocated to climate adaptation measures (for example, soil health, irrigation and technology)

IG2. **What should an entity consider when disclosing its Scope 3 greenhouse gas emissions?**

An entity shall consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011), in disclosing its emissions. Emissions that do not fall within Scope 1, Scope 2, or the 15 categories of Scope 3 are outside the required disclosures in this Standard. Emissions arising from interventions taken by a public sector entity exercising its sovereign powers are not included in the required disclosures of this Standard.

Transition

IG3. **This Standard provides transition relief for specific areas for up to the first three annual reporting periods in which an entity applies this Standard (see paragraphs 39–43). When is an entity considered to have applied this Standard?**

A first time-adopter may determine the date on which it adopts this Standard, unless it is required by another entity to adopt this Standard by a specific date.

The entity is considered to have applied this Standard from the date on which it adopts this Standard and for which it prepares its first climate-related disclosures in accordance with this Standard in its entirety (except for the specific transitional reliefs provided in paragraphs 39–43).

This may be different from the date on which an entity formally and publicly announces its decision that it will adopt this Standard, which may or may not be the same as the date of adoption of this Standard.

Primary Users

IG4. **How does an entity assess whether its disclosures meet primary users' information needs?**

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial report requires that entity to consider the characteristics of those users while also considering the entity's own circumstances. General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and climate-related disclosures.

Existing and potential service recipients and their representatives, and resource providers and their representatives are the primary users to whom general purpose financial reports are directed. General purpose financial reports are prepared for users with a reasonable knowledge of operational and economic activities, public sector programs and operations, and who review and analyze the information diligently. However, even well-informed and diligent users may need to seek the aid of an advisor to understand climate-related financial information.

General purpose financial reports do not, and cannot, provide all the information that primary users need. Therefore, the entity aims to meet the common information needs of its primary users. It does not aim to address specialized information needs—information needs that are unique to particular users.

To meet the common information needs of its primary users, an entity first separately identifies the information needs of one of the types of primary users—for example, service recipients and their representatives (existing and potential). The entity then repeats the assessment for resource providers and their representatives (existing and potential). The combined information needs identified by these assessments form the set of common information needs that the entity aims to meet.

In other words, the assessment of common information needs does not require an entity to identify the information needs that are shared by all primary users. Some identified information needs will be common to all types of primary users, but others may be specific to only one or two types. If an entity were to focus only on information needs that are common to all types of primary users, it might exclude information that meets the needs of only one type of primary user.

Publicly Available Information

IG5. **Does the entity need to disclose publicly available information as a part of its climate-related disclosures?**

Primary users do not source information exclusively from general purpose financial reports. For example, primary users might also consider information about the function of the entity and the jurisdiction(s) in which the entity operates; information about the state of the economy; and information in the entity's news releases as well as other documents the entity has published. However, the fact that information is publicly available does not relieve an entity of its responsibility to disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's long-term fiscal sustainability over the short, medium or long term.

Green Financing Instruments

IG6. **What information should an entity disclose in relation to green financing instruments?**

Green financing instruments such as green bonds and sustainability-linked loans should be reflected in an entity's financial statements.

While this Standard is not intended as a climate financing standard and does not explicitly reference green financing mechanisms, if such instruments give rise to climate-related risks and opportunities, these should be disclosed in accordance with this Standard. For example, an entity that has issued a green bond may face increased climate-related transition risks (e.g. credit risk, reputational risk) if it fails to implement planned climate-related actions through allocating proceeds to eligible Green Projects with clear environmental benefits. Relevant disclosures in the Standard could include the following:

(a) Governance: Oversight of climate-related risks and opportunities, including climate-related transition risks arising from the green bond;

(b) Strategy: How the entity plans to respond to these climate-related transition risks through its strategy and decision making;

(c) Risk management – Policies and processes for identifying, assessing, prioritizing and monitoring these climate-related transition risks; and

(d) Metrics and Targets: Any targets that the entity has set on the allocation of proceeds to eligible Green Projects, as a part of achieving the entity's climate-related strategic goals.

In addition, the principles and guidance in RPG 3, *Reporting Service Performance Information* are relevant for an entity in reporting on sustainability programs, including green bonds. An entity may refer to *Reporting Service Performance Information–Amendments to RPGs 1 and 3: Additional Non-authoritative Guidance*, which provides an example of reporting on a program financed by a green bond.

Illustrative Examples

These examples accompany, but are not part of, IPSASB SRS 1.

IE1. These examples set out hypothetical situations illustrating how an entity might apply some of the requirements in this Standard. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific fact pattern illustrated. For illustrative purposes, the examples use simple fact patterns. When making disclosures in accordance with this Standard, an entity would need to consider all relevant facts and the specific circumstances of a particular fact pattern.

Aggregation and Disaggregation of Greenhouse Gas Emissions

IE2. Examples 1–4 illustrate some considerations when determining whether it is necessary to disaggregate information when disclosing greenhouse gas emissions in accordance with the requirements of this Standard. These examples do not illustrate all the reasons that could make it necessary to disaggregate information when disclosing greenhouse gas emissions. Where relevant, these examples refer to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004).

Example 1—Disaggregating Scope 1 and Scope 2 Greenhouse Gas Emissions between the Consolidated Accounting Group and Other Investees

IE3. Example 1 illustrates the requirements in paragraphs (i)–(v) to disclose and disaggregate Scope 1 and Scope 2 greenhouse gas emissions between an entity's consolidated accounting group and its investees not included in the consolidated accounting group.

IE4. The entity applies the equity share approach, as outlined in the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), to set its organizational boundary for the purposes of measuring its greenhouse gas emissions. The entity applies IPSAS Standards and has one investment that it accounts for as an investment in an associate. Applying the equity share approach, the entity determines its Scope 1 greenhouse gas emissions to be 7,350 metric tons CO_2 equivalent (CO_2e), and its Scope 2 greenhouse gas emissions to be 1,320 CO_2e.

IE5. Table 1 illustrates the disaggregation of the total Scope 1 and Scope 2 greenhouse gas emissions disclosed by the entity when it applies paragraph 28(a)(iv).

Table 1: Disaggregation of Scope 1 and Scope 2 Greenhouse Gas Emissions Between the Consolidated Accounting Group and the Other Investees

	Greenhouse gas emissions (metric tons CO_2e)		
	Scope 1	**Scope 2**	**Total**
Consolidated accounting group	4,900	830	5,730
Other investees (investment in associate)	2,450	490	2,940
Total disclosed (equity share method)	7,350	1,320	8,670

Example 2—Disaggregating Scope 3 Greenhouse Gas Emissions by Scope 3 Categories

IE6. Example 2 illustrates the disaggregation of Scope 3 greenhouse gas emissions in accordance with paragraph 28(a)(i)c and paragraph 28(a)(vi), applying the principles of aggregation and disaggregation (paragraphs B.AG46–B.AG47). For simplicity, this example illustrates only an entity's considerations related to how it presents its disclosures of Scope 3 greenhouse gas emissions from upstream transportation and distribution (Category 4) and its Scope 3 greenhouse gas emissions from waste generated in operations (Category 5).

IE7. A public sector entity applies paragraph AG59 of this Standard. It measures its Scope 3 greenhouse gas emissions from the upstream transportation of equipment and waste generated in operations. The entity determines these Scope 3 greenhouse gas emissions to be Category 4—upstream transportation and distribution and Category 5—waste generated in operations in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). The entity considers whether disaggregation of its Category 4 and Category 5 Scope 3 greenhouse gas emissions is required to meet the requirements in this Standard (paragraphs B.AG46–B.AG47).

IE8. In relation to Category 4—upstream transportation and distribution, the entity considers that:

(a) Its greenhouse gas emissions in relation to this category account for 20% of its total disclosed Scope 1, Scope 2 and Scope 3 greenhouse gas emissions;

(b) It has committed to the optimization of transport routes by 20x0;

(c) It has set specific supplier engagement targets for reducing Category 4 greenhouse gas emissions; and

(d) Its supply chain is located in jurisdictions with nationally determined contributions, and, as a result, suppliers are subject to increasingly strict emissions-related regulations and taxation policies.

IE9. In relation to Category 5—waste generated in operations, the entity considers that:

(a) It has a three-year plan to reduce emissions from waste;

(b) Its jurisdiction has raised concerns on health hazards from waste incineration, and has set a national roadmap to reduce emissions from waste for public sector entities; and

(c) Its greenhouse gas emissions in this category account for 30% of its total disclosed Scope 1, Scope 2 and Scope 3 greenhouse gas emissions.

IE10. Although this Standard does not explicitly require disaggregation of Scope 3 greenhouse gas emissions by category, the entity considers the requirement in this Standard that prohibits information from being aggregated if doing so would obscure information that is material.

IE11. For the reasons outlined in paragraphs IE6–IE10, the entity determines that disaggregating information about its Scope 3 Category 4 greenhouse gas emissions and its Scope 3 Category 5 greenhouse gas emissions is necessary to provide material information to primary users of its general purpose financial reports.

IE12. The entity decides to include a table to supplement the disclosure of its Scope 3 greenhouse gas emissions, as illustrated in Table 2.

Table 2: Disclosure Excerpt of Scope 3 Greenhouse Gas Emissions Disaggregated Between Category 4 and Category 5

	Greenhouse gas emissions (metric tonnes CO_2e)	
	20X1	**20X0**
Category 4—Upstream transportation and distribution	34,000	35,000
Category 5—Waste generated in operations	13,000	14,600

Example 3—Disaggregating Greenhouse Gas Emissions by Constituent Greenhouse Gases

IE13. Examples 3A and 3B illustrate the disaggregation of an entity's absolute greenhouse gas emissions by constituent greenhouse gases. Although this Standard does not explicitly require such disaggregation, an entity is required to apply the principles of aggregation and disaggregation set out in this Standard (paragraphs B.AG46–B.AG47).

Example 3A—Disaggregation of Scope 1 Greenhouse Gas Emissions by Constituent Gas

IE14. For simplicity, this example illustrates only an entity's considerations related to methane emissions. Considerations related to other constituent gases are ignored.

IE15. An entity operates in the utilities industry. It measures its Scope 1 greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). The entity considers how to disclose information about its Scope 1 greenhouse gas emissions. In making its decision, the entity considers that:

(a) A jurisdiction in which it operates has introduced stringent regulations on the utilities industry relating to methane emissions arising from production;

(b) The entity considers the applicability of suitable peer metrics (see paragraph 31), and chooses to refer to the SASB Standards for the Gas Utilities & Distributors industry;

(c) The entity's risk function has determined that Scope 1 methane emissions could pose high climate-related transition risks as a result of a national methane pledge; and

(d) The entity has made process improvements to reduce Scope 1 methane emissions, thus reducing the risk of potential regulatory liabilities.

IE16. Although this Standard does not explicitly require disaggregation by constituent greenhouse gases, the entity considers the requirement in this Standard that prohibits information from being aggregated if doing so would obscure information that is material.

IE17. For the reasons outlined in paragraphs IE15–IE16, the entity determines that disaggregating information about its Scope 1 methane emissions is necessary to provide material information to primary users of general purpose financial reports.

IE18. The entity discloses its greenhouse gas emissions in accordance with paragraph 28, and decides to include a table to supplement the disclosure of its Scope 1 greenhouse gas emissions, as illustrated in Table 3.

Table 3: Disclosure Excerpt of Scope 1 Greenhouse Gas Emissions Disaggregated by Constituent Gas

	Greenhouse gas emissions (metric tonnes CO_2e)	
	20X1	**20X0**
Methane	23,000	24,000

Example 3B—Disaggregation of a Scope 3 Category by Constituent Gases

IE19. For simplicity, this example illustrates only an entity's considerations related to its emissions from purchased goods and services (Scope 3 Category 1 greenhouse gas emissions), and, specifically, its CO_2 and nitrogen oxide (N_2O) emissions. Considerations related to other Scope 3 categories and other constituent gases are ignored.

IE20. A waste management agency in the public sector measures its Scope 3 greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). The entity considers how to disclose information about its emissions from purchased goods and services (Scope 3 Category 1 greenhouse gas emissions). In making its decision, the entity considers that a substantial proportion of its waste management services is outsourced to private companies to handle waste collection, recycling, and disposal services. The entity learns that these private companies have high Scope 1 greenhouse gas emissions —specifically, CO_2 and N_2O— both of which are subject to stringent regulation in the jurisdiction. Based on this consideration, the entity determines that information about its emissions from purchased goods and services is material.

IE21. The entity then also considers circumstances related to CO_2 and N_2O emissions, including:

(a) Whether and how the private companies providing waste management services measure, manage, and monitor their CO_2 and N_2O emissions; and

(b) Whether and how the entity has set specific targets for CO_2 emissions reduction.

IE22. Although not explicitly required by this Standard to disaggregate Scope 3 Category 1 greenhouse gas emissions by constituent greenhouse gases, the entity considers the requirement in this Standard that prohibits information from being aggregated if doing so would obscure information that is material.

IE23. For the reasons outlined in paragraphs IE19–IE22, the entity determines that disaggregating information about CO_2 and N_2O emissions from purchased goods and services is necessary to provide material information to primary users of general purpose financial reports.

IE24. The entity discloses its greenhouse gas emissions in accordance with paragraph 28 of this Standard and decides to include a table to supplement the disclosure of its Scope 3 greenhouse gas emissions, as illustrated in Table 4.

Table 4: Disclosure Excerpt of Scope 3 Category 1 Greenhouse Gas Emissions Disaggregated by Constituent Gases

	Greenhouse gas emissions (metric tonnes CO_2e)	
	20X1	**20X0**
Carbon dioxide	46,000	48,000
Nitrogen oxide	1,000	1,020

Example 4—Disaggregation of Greenhouse Gas Emissions by Function within a Public Sector Entity

IE25. A public sector entity discloses its greenhouse gas emissions in accordance with paragraph 28. The entity performs a range of public sector functions, including a policy design function and a service delivery function.

IE26. The entity was delegated responsibility for part of a national climate action plan and established a policy design function in 20X1 for the purposes of fulfilling this responsibility. This was a major expansion of the entity's operations, particularly from the increase in number of new employees in this policy design function starting from its establishment.

IE27. Although this Standard does not explicitly require disaggregation by function, the entity considers the requirement in this Standard that prohibits information from being aggregated if doing so would obscure information that is material.

IE28. For the reasons outlined in paragraphs IE25–IE27, the entity determines that disaggregating information about its absolute greenhouse gas emissions by function is necessary to provide material information to primary users of general purpose financial reports.

IE29. The entity discloses its greenhouse gas emissions in accordance with paragraph 28 of this Standard. In particular, the entity refers to paragraph AG59 and determines its Scope 3 categories for disclosure. The entity determines its material Scope 3 categories for the policy design function, such as Category 6 – Business Travel, where the entity measures greenhouse gas emissions from the transportation of employees for policy design activities. Table 5 illustrates the disaggregation of greenhouse gas emissions by function and scope within a public sector entity.

Table 5: Disclosure Excerpt of Greenhouse Gas Emissions Disaggregated by Function

Function	Greenhouse gas emissions (metric tonnes CO_2e)					
	20X1			20X0		
	Scope 1	Scope 2	Scope 3	Scope 1	Scope 2	Scope 3
Policy Design	1,900	2,080	4,820	-	-	-
Service Delivery	12,000	6,300	15,000	11,500	7,000	14,000

COMPARISON WITH IFRS S2

IPSASB SRS 1, *Climate-related Disclosures* is drawn primarily from IFRS S2 *Climate-related Disclosures* (2023). The main differences between IPSASB SRS 1 and IFRS S2 are as follows:

- IPSASB SRS 1 contains additional guidance on understanding an entity's context in determining material information, drawing on GRI 3: Material Topics (2021).
- IPSASB SRS 1 includes a rebuttable presumption that entities use the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004), unless a different method is determined to better meet primary user information needs, whereas IFRS S2 requires entities to measure their greenhouse gas emissions in accordance with the same Greenhouse Gas Protocol, unless required by a jurisdictional authority or an exchange on which the entity is listed.
- IPSASB SRS 1 contains additional guidance on conceptual foundations and general requirements drawn from the IPSASB's Conceptual Framework and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.
- IPSASB SRS 1 uses different terminology, in certain instances, from IFRS S2. The most significant examples are the use of the terms "long-term fiscal sustainability", and "operational model". The equivalent terms in IFRS S2 are "an entity's prospects" and "business model", respectively.

GLOSSARY OF DEFINED TERMS IN IPSASB SRS STANDARDS

This Glossary contains all terms defined in the IPSASB SRS Standards approved up to January 31, 2026. A list of these IPSASB SRS Standards is located after this Glossary.

Definitions

References to IPSASB SRS Standards are by Standard number and paragraph number. For example, 1.6 refers users to IPSASB SRS 1, *Climate-related Disclosures*, paragraph 6.

Term	Definition	Location
carbon credit	An emissions unit that is issued by a carbon crediting program and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialized, issued, tracked and cancelled by means of an electronic registry.	1.6
climate resilience	The capacity of an entity to adjust to climate-related changes, developments or uncertainties. Climate resilience involves the capacity to manage climate-related risks and benefit from climate-related opportunities, including the ability to respond and adapt to climate-related transition risks and climate-related physical risks. An entity's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties.	1.6
climate-related physical risks	Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity.	1.6
climate-related risks	The potential negative effects of climate change on an entity. These risks are categorized into climate-related physical risks and climate-related transition risks.	1.6
climate-related opportunities	The potential positive effects of climate change on an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity.	1.6
climate-related transition plan	An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.	1.6
climate-related transition risks	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks.	1.6
CO_2 equivalent	The universal unit of measurement to indicate the global warming potential of each greenhouse gas, expressed in terms of the global warming potential of one unit of carbon dioxide. This unit is used to evaluate releasing (or	1.6

Term	Definition	Location
	avoiding releasing) different greenhouse gases against a common basis.	
financed emissions	The portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an entity to the investee or counterparty. These emissions are part of Scope 3 Category 15 (investments) as defined in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).	1.6
general purpose financial reports	Reports that provide financial and non-financial information about a reporting entity that is useful to primary users in making decisions and to enable accountability. General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and climate-related disclosures.	1.B1
global warming potential	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given greenhouse gas relative to one unit of CO_2.	1.6
greenhouse gases	The seven greenhouse gases listed in the Kyoto Protocol— carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs) and sulfur hexafluoride (SF_6).	1.6
indirect greenhouse gas emissions	Emissions that are a consequence of the activities of an entity, but occur at sources owned or controlled by another entity.	1.6
internal carbon price	A price used by an entity to assess the financial implications of changes to investment, production and consumption patterns, and of potential technological progress and future emissions abatement costs. An entity can use internal carbon prices for a range of applications. Two types of internal carbon prices that an entity commonly uses are: (a) A shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used to understand the economic implications or trade-offs for such things as risk impacts, new investments, the net present value of projects, and the cost and benefits of various initiatives; and (b) An internal tax or fee, which is a carbon price charged to an operational activity, or other operating unit based on its greenhouse gas emissions (these internal taxes or fees are similar to intra-group charges).	1.6
latest international agreement on climate change	The most recent agreement by central governments and states to combat climate change, setting norms and targets for a reduction in greenhouse gases.	1.6
long-term fiscal sustainability	The ability of an entity to meet service delivery and financial commitments, both now and in the future.	1.6

Term	Definition	Location
material information	Information that, if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial reports prepared for that reporting period.	1.B1
operational model	an entity's system of transforming inputs through its activities into outputs and outcomes that aims to fulfill the entity's objectives.	1.6
primary users of general purpose financial reports (primary users)	Existing and potential service recipients and their representatives and resource providers and their representatives.	1.B1
scope 1 greenhouse gas emissions	Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.	1.6
scope 2 greenhouse gas emissions	Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.	1.6
scope 3 greenhouse gas emissions	Indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).	1.6
scope 3 categories	15 categories of Scope 3 greenhouse gas emissions—as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011): (1) Purchased goods and services; (2) Capital goods; (3) Fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions; (4) Upstream transportation and distribution; (5) Waste generated in operations; (6) Business travel; (7) Employee commuting; (8) Upstream leased assets; (9) Downstream transportation and distribution; (10) Processing of sold products;	1.6

Term	Definition	Location
	(11) Use of sold products; (12) End-of-life treatment of sold products; (13) Downstream leased assets; (14) Franchises; and (15) Investments.	
value chain	The full range of interactions, resources and relationships related to a reporting entity's operational model and the external environment in which it operates, including other public sector entities. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its goods or provide services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply and distribution channels, such as materials and service sourcing, and service and/or product delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.	1.6

IPSASB SRS Standards Issued as of January 31, 2026

Table A: List of IPSASB SRS Standards not yet Effective as of January 1, 2026

IPSASB SRS Standards	Issued	Original Effective Date On or After	Other IPSASB SRS Standards Affected
IPSASB SRS 1, *Climate-related Disclosures*	January 2026	January 1, 2028	N/A

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RPG™ GUIDELINES



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INTRODUCTION TO RECOMMENDED PRACTICE GUIDELINES

Recommended Practice Guidelines (RPG) are developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards (IPSAS) and RPG Guidelines for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Standards relate to the general purpose financial statements (financial statements) and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS Standards, RPG Guidelines do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPG Guidelines. RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subject.

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RPG 1, *REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES*

History of RPG Guideline

This version includes amendments resulting from IPSAS Accounting Standards and RPG Guidelines issued up to January 31, 2026.

RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* was issued in July 2013.

Since then, RPG 1 has been amended by the following IPSAS Accounting Standards and RPG Guidelines:

- *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* (issued May 2023)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in RPG 1

Paragraph Affected	How Affected	Affected By
5	Deleted	*The Applicability of IPSAS* April 2016
6	Amended	*The Applicability of IPSAS* April 2016
IG1	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG2	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG3	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023

RPG1, *REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES*

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Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting on the long-term sustainability of a public sector entity's finances ("reporting long-term fiscal sustainability information"[1]). The RPG provides information on the impact of current policies and decisions made at the reporting date on future inflows and outflows and supplements information in the general purpose financial statements ("financial statements"). The aim of such reporting is to provide an indication of the projected long-term sustainability of an entity's finances over a specified time horizon in accordance with stated assumptions.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting long-term fiscal sustainability information is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSAS).

3. The scope of this RPG includes an entity's projected flows. It is not limited to those flows related to programs providing social benefits. Nevertheless, this RPG acknowledges that the flows relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting long-term fiscal sustainability information for many entities.

4. This RPG does not directly address issues associated with the reporting of environmental sustainability. However, an entity should assess any financial impacts of environmental factors and take them into account when developing its projections.

5. [Deleted]

6. Although this RPG does not apply directly to commercial public sector entities, the future inflows and outflows related to a commercial public sector entity, controlled by the reporting entity, over the specified time horizon of the projections are within the scope of this RPG.

7. Long-term fiscal sustainability information should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

8. This RPG outlines minimum information levels. The RPG does not preclude the presentation of additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics (QCs) of financial reporting.

Definitions

9. The following terms are used in this RPG with the meaning specified:

   Current policy assumptions are those assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances.

   Inflows are cash and cash equivalents projected to be received or accrued by the entity over the time horizon of the projections.

   Long-term fiscal sustainability is the ability of an entity to meet service delivery and financial commitments both now and in the future.

   Outflows are cash and cash equivalents projected to be paid or accrued by the entity over the time horizon of the projections.

[1] The IPSASB acknowledges that in a number of jurisdictions the term "fiscal" has a narrow interpretation related to taxation. In this RPG the term is used with a broader meaning to include both inflows and outflows.

A projection is forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions.

Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSAS) are set out in Appendix A.

Determining Whether to Report Long-Term Fiscal Sustainability Information

10. In determining whether to report long-term fiscal sustainability information, an entity needs to assess whether potential users exist for prospective financial information.

11. Long-term fiscal sustainability information is broader than information derived from the financial statements. It includes projected inflows and outflows related to the provision of goods and services and programs providing social benefits using current policy assumptions over a specified time horizon. It therefore takes into account decisions made by the entity on or before the reporting date that will give rise to future outflows that do not meet the definition of and/or recognition criteria for liabilities at the reporting date. Similarly it takes into account future inflows that do not meet the definition of and/or recognition criteria for assets at the reporting date.

12. Assessments of long-term fiscal sustainability use a broad range of data. These data include financial and non-financial information about future economic and demographic conditions, assumptions about country and global trends such as productivity, the relative competitiveness of the national, state or local economy and expected changes in demographic variables such as age, mortality, morbidity, fertility, gender, income, educational attainment and workforce participation.

13. The relevance of reporting long-term fiscal sustainability information should be considered in the context of that entity's funding and capacity to determine service delivery levels. There are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics:

    (a) Significant tax and/or other revenue raising powers;

    (b) Powers to incur significant debt; or

    (c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

Reporting Boundary

14. Use of the same reporting boundary as for the financial statements enhances the understandability of projections and increases their usefulness to the users of general purpose financial reports (GPFRs).

15. An entity may report long-term fiscal sustainability information using another reporting boundary, such as the General Government Sector (GGS). This may be to enhance consistency and comparability with other jurisdictions or because there are other indicators that are used to assess long-term fiscal sustainability based on another reporting boundary. Entities providing information on the GGS are encouraged to also present information in accordance with IPSAS 22*, Disclosure of Financial Information about the General Government Sector.*

Reporting Long-Term Fiscal Sustainability Information

16. Long-term fiscal sustainability information prepared in accordance with this RPG should enable users to assess various aspects of the long-term fiscal sustainability of the entity, including the nature and extent of financial risks that the entity faces.

17. The form and content of an entity's long-term fiscal sustainability information will vary depending on the nature of the entity and the regulatory environment in which it operates. A single presentation approach is

unlikely to satisfy the objectives of financial reporting. To meet the objectives[2] and QCs of financial reporting while taking into account the constraints[3], long-term fiscal sustainability information will usually include the following components:

(a) Projections of future inflows and outflows, which can be displayed in tabular statements or graphical formats, and a narrative discussion explaining the projections (see paragraphs 21–26 and 56);

(b) A narrative discussion of the dimensions of long-term fiscal sustainability including any indicators used to portray the dimensions (see paragraphs 27–40 and 57); and

(c) A narrative discussion of the principles, assumptions and methodology underlying the projections (see paragraphs 41–53 and 58).

18. The projections reported in long-term fiscal sustainability information generally reflect conditions of uncertainty. The projections are derived from models that rely on assumptions around which there is some uncertainty. In order for long-term fiscal sustainability information to faithfully represent an entity's projected future flows, assumptions used should be based on the best available information.

19. Long-term fiscal sustainability information may be published as a separate report or as part of another report. It may be published at the same time as the entity's GPFSs or at a different time.

20. A controlled entity should ensure that the information reported is consistent with information reported by its controlling entity.

Presenting Projections of Future Inflows and Outflows

21. An entity should present projections of future inflows and outflows, including capital expenditure. The projections should be prepared on the basis of current policy assumptions, and assumptions about future economic and other conditions.

22. An entity should assess the extent to which it can draw on the assumptions, projections and indicators prepared by other entities, such as Ministries of Finance, or from other sources of information, rather than preparing the information itself, as this can reduce the cost of reporting. Such an assessment considers whether such information meets the QCs. Where an entity has a budget or forecast that meets the definition of a projection, this information can be used for the relevant time period or periods.

23. Projections can be displayed in tabular statements or graphical formats providing details of the programs and activities giving rise to outflows and identifying the sources of inflows. In determining the format of tabular statements entities need to balance considerations of understandability and relevance. Presentation of a large number of time periods between the reporting date and the end of the time horizon provides a more complete information set, but increases the risk of information overload and the impairment of understandability.

24. An entity should ensure that its choice and presentation of projections is not skewed to present a misleadingly favorable or unfavorable picture. The formats and terms used should also be consistent between reporting periods.

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[2] The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports for accountability purposes and for decision-making purposes. See Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) for further details.

[3] The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework* for further details.

Time Horizon

25. In selecting an appropriate time horizon an entity needs to balance the QCs of verifiability, faithful representation and relevance. The further the end of the time horizon is from the reporting date, the more future events are captured. However, as the time horizon increases, the assumptions underpinning the projections become less robust and potentially less verifiable. Conversely, excessively short time horizons may increase the risk that the consequences of events outside the time horizon may be ignored, thereby reducing the relevance of projections.

26. The length of the time horizon will reflect the characteristics of the entity. It is likely to be influenced by the characteristics of the entity, including aspects such as the longevity of key programs, the level of dependence on other entities for funding, the estimated lives of major items of property, plant, and equipment, such as infrastructure networks, and the time horizons adopted by other comparable entities providing prospective information.

Addressing the Dimensions of Long-Term Fiscal Sustainability

27. An entity reporting long-term fiscal sustainability information should include a narrative discussion on each of the dimensions of long-term fiscal sustainability. This RPG discusses three inter-related dimensions of long-term fiscal sustainability, as follows:

- Service;
- Revenue; and
- Debt.

28. The dimensions are inter-related as changes in one dimension affect the other dimensions. For example, future services and entitlements to beneficiaries (the service dimension) are funded by revenue and/or debt. A single dimension can be analyzed by holding the other two dimensions constant. For example, by holding the existing levels of services and revenues constant an entity can illustrate the effect of such assumptions on the level of debt. The relationships between the dimensions of long-term fiscal sustainability are illustrated in Appendix B.

29. There are two aspects to each dimension: capacity and vulnerability. Capacity is the ability of the entity to change or influence the dimension, and vulnerability is the extent of the entity's dependence on factors outside its control or influence.

30. An entity can use indicators to present the dimensions of long-term fiscal sustainability. An entity should choose its indicators based on their relevance to the entity. Examples of indicators are provided in the Glossary of Indicators in Appendix C.

Service Dimension

31. The service dimension considers the volume and quality of services to recipients and entitlements to beneficiaries over the period of the projections, given current policy assumptions on revenue from taxation and other sources, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to maintain or vary the volume and quality of services it provides or the entitlement programs it delivers. It also focuses attention on whether the entity is vulnerable to factors such the willingness of recipients and beneficiaries to accept reductions in services and entitlements or vulnerable because it does not have the ability to determine or vary service levels, for example where another level of government determines the level of services to be provided.

32. By reflecting the impact of current policy assumptions on revenue from taxation and other sources, and on debt, long-term fiscal sustainability information can present the amounts available for the provision of goods

and services. Users can contrast this information with the entity's service delivery commitments, and thereby evaluate the sustainability of the provision of services.

33. A factor to consider in making such comparisons is the extent to which expenditure on certain programs is likely to increase more steeply than the overall levels of expenditure of the entity. This may be because the number of beneficiaries is projected to increase for a particular program or because costs associated with certain programs, such as healthcare, are projected to increase more quickly than the general inflation rate. For example, due to demographic and technological changes, the cost of healthcare as a proportion of overall government expenditures might be projected to increase over the period of projections.

34. For capital intensive activities the service dimension also involves an assessment of the useful lives and replacement cycles of items of property, plant, and equipment.

Revenue Dimension

35. The revenue dimension considers taxation levels and other revenue sources over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to vary existing taxation levels or other revenue sources or introduce new revenue sources. It also focuses attention on factors such as whether the entity is vulnerable to the unwillingness of taxpayers to accept increases in taxation levels, and the extent of its dependence upon revenue sources outside its control or influence.

36. An example of an indicator of the revenue dimension is the proportion of total revenues that are received from entities at other levels of government or from international organizations. For example, a local government entity may be able to maintain or increase property taxes, but be partially dependent upon a mixture of general grants and specific grants from national and/or state governments. As policies for the provision of services and for managing debt are projected, the level of revenue required to fund such policies can be presented. This information assists users in assessing the entity's ability to maintain or increase its levels of revenue and thereby in evaluating the sustainability of its sources of revenue.

37. Generally, an entity which has a limited ability to vary levels of revenue from taxation and other sources is likely to be highly dependent upon funding decisions by entities at other levels of government. If inter-governmental transfers have constitutional or other legal underpinning, this may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of continuing to receive stable revenues. This information assists users in assessing the entity's vulnerability to decisions outside its control.

Debt Dimension

38. The debt dimension considers debt levels over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, and revenue from taxation and other sources. This dimension focuses attention on the capacity of the entity to meet its financial commitments as they come due or to refinance or increase debt as necessary. It also focuses attention on whether the entity is vulnerable to market and lender confidence and interest rate risk.

39. The level of net debt is important for an assessment of the debt dimension, as, at any reporting date, it represents the amount expended on the past provision of goods and services that has to be financed in the future. Therefore, this indicator is likely to be relevant for many entities. By projecting current policy assumptions for the provision of goods and services, and for revenue from taxation and other sources, projected levels of net debt can be presented. This information assists users in assessing the entity's ability to meet its financial commitments as they come due or to maintain, refinance or increase its levels of debt and thereby evaluate the sustainability of the entity's debt.

40. At national levels a factor to consider in presenting such projections is whether to distinguish between: (a) the primary balance, which is total projected government spending, excluding interest payable on debt, minus tax revenues, and (b) the overall balance, which is the primary balance including outflows related to interest payable on debt. At sub-national levels or for international organizations the focus may be on net debt as a percentage of total revenues. Increases in this indicator show that an increasing proportion of revenues will be required for debt servicing, thereby diverting resources from service delivery, and that the projected level of an entity's debt may be unsustainable.

Principles and Methodologies

Updating Projections and Frequency of Reporting

41. While regular updates are desirable, this RPG acknowledges that annual updating may not be realistic for all entities. However, there is generally an inverse relationship between the robustness of assumptions on which projections are made and the amount of time since they were made. During periods of global financial volatility the risk of projections made some time before the reporting date becoming outdated increases, with a consequent reduction of the ability of such information to meet the objectives of accountability and decision making. In this situation, an entity should consider updating its projections on a more frequent basis. An entity should also consider updating its projections after significant or major unexpected events such as natural disasters or other emergencies.

Impact of Legal Requirements and Policy Frameworks

42. In some jurisdictions reporting long-term fiscal sustainability information is governed by a legal or regulatory framework that applies at the national or state level or through international arrangements. There may also be legal requirements for local government. These might include balanced budget requirements. These requirements are likely to specify or otherwise affect the principles, assumptions and methodologies an entity should use in calculating and disclosing its projections.

Current Policy, Demographic and Economic Assumptions

43. Where flows for particular programs and activities are individually modeled, the policy assumptions should be based on the continuation of current legislation or regulation with departures where appropriate. Those assumptions (referred to as "current policy assumptions") should be applied consistently through-out the entire projection period. The starting point for current policy assumptions should be legislation or regulation currently in force. However, there may be instances where a departure from current legislation or regulation may be appropriate, for example:

    (a) Where changes to current legislation or regulation have been enacted before the reporting date, and where those changes have a specific implementation date within the time horizon of the projections;

    (b) Where the provisions in current legislation or regulation are internally inconsistent; or

    (c) Where current legislation or regulation has a termination date, e.g., "sunset provisions".

44. Current policy assumptions may be affected by legal changes that have been enacted before the reporting date, which have a specific implementation date within the time horizon of the projections. In these circumstances, assuming current legislation or regulation remains in force for the entire projection period will not be appropriate.

45. An example of current legislation or regulation that is internally inconsistent is a social security program which has legal provisions that make it unlawful to make payments once an earmarked fund is exhausted, although entitlements of beneficiaries will continue after the exhaustion of that fund. Assuming that the fund will not meet obligations once it is exhausted might reflect a strict legal position, but an entity may need to assess

whether the presentation of projections on such a basis underestimates projected outflows and therefore the extent of the fiscal challenge facing the social security program. In this situation an entity may calculate its projections based on current policy assumptions despite legal restrictions.

46. Current legislation or regulation may have a termination date, e.g., sunset provisions, whereby it terminates after a specific period. In many cases there may be a strong probability that such programs will be replaced by similar programs. Adopting a strict legal termination principle could underestimate projected outflows, and therefore impair the usefulness of the information.

Approach to Revenue Inflows

47. Significant revenue inflows from taxation and other sources, such as inter-governmental transfers, may be individually modeled based on current policy assumptions. Significant sources of taxation and other revenue inflows that are not modeled individually are projected to grow (or diminish) in relation to a variable such as gross domestic product (GDP) or a specified inflation index.

48. Other revenue inflows, such as royalties from natural resources, may also be projected to grow in line with GDP or an index. They may also be individually modeled to address specific circumstances, such as when the natural resource is expected to be depleted.

Approach to Age-Related and Non-Age-Related Programs

49. Age-related programs are often subject to eligibility criteria such as age and other demographic factors. In making projections, programs and activities that are age-related may be distinguished from non-age- related programs. Age-related programs may be individually modeled while non-age-related programs may be projected to increase in line with other variables, such as GDP, or to be constant in real terms. Such an approach to non-age-related programs provides some flexibility, as it allows above GDP/real terms increases in some programs and activities to be offset by lower increases or spending declines in other areas.

Demographic and Economic Assumptions

50. Demographic assumptions are likely to include fertility, mortality and migration rates, and workforce participation rates. Economic assumptions are likely to include economic growth rates and inflation. Other economic assumptions may include environmental factors, such as the impact of the depletion and degradation of ecosystems and the depletion of water and finite natural resources on economic growth.

Reasonableness of Assumptions

51. Projections of inflows and outflows should be based on current policy assumptions and economic and demographic assumptions, which are reasonable in the context of the factors discussed in paragraph 18.

Inflation and Discount Rates

52. There are two main approaches to incorporating the effect of price inflation in projections. Inflation may be taken into account in making projections or projections may be made at current prices (i.e., prices prevailing at the reporting date). If the projections include inflation, then the discount rate should also include inflation. If the projections are at current prices, the discount rate should exclude inflation.

Sensitivity Analysis

53. Many assumptions on which projections are based are inherently uncertain. In some cases small changes in variables can have significant impacts on the projections. The use of sensitivity analysis will help users to understand the impact of significant changes in demographic and economic assumptions on the projections.

Disclosures

54. The entity should disclose information that enables users of its long-term fiscal sustainability information to assess the projected long-term fiscal sustainability of the entity. An entity should make any additional disclosures necessary to meet the objectives of financial reporting.

55. An entity should disclose the following information:

(a) The name of the entity;

(b) The financial statements to which the long-term fiscal sustainability information relates;

(c) Where different, the names of the entities within the reporting boundary for long-term fiscal sustainability information that are different to those for the financial statements;

(d) Where the entity is a controlled entity, the identity of the controlling entity;

(e) The date at which a full set of projections was made;

(f) The basis and timing of subsequent updating of that full set of projections; and

(g) When an entity uses projections and indicators prepared by other entities or from other sources of information, the names of those entities or other sources, and the information that has been used.

56. The narrative discussion of the projections should include disclosure of the following information:

(a) The sources of significant revenue inflows from taxation and other sources;

(b) An overview of the current policy assumptions for significant revenue inflows from taxation and other sources, such as taxation threshold levels and allowances;

(c) The sources of significant outflows including capital expenditure;

(d) An overview of the current policy assumptions for the significant outflows including capital expenditure;

(e) Whether the projections are modeled individually or in aggregate;

(f) An explanation of the changes in projections between reporting dates and the reasons for those changes;

(g) An explanation that projections are not forecasts and that it is unlikely that projections over the specified time horizon will match the actual outcome and the extent of the difference will depend upon a range of factors, including the future actions of the entity in meeting any identified fiscal challenge;

(h) An explanation of any modifications of formats between reporting periods and the reasons for such changes;

(i) The time horizon used for the projections and the reasons for selecting that time horizon; and

(j) Where an entity changes the time horizon from that used in the previous reporting period, the reason for such a change.

57. The narrative discussion of the dimensions of long-term fiscal sustainability should include disclosure of the following information:

(a) An analysis of significant changes in the indicators compared with those of the previous reporting period;

(b) Changes in the indicators used to report long-term fiscal sustainability information from the previous reporting period, and the reasons for such changes; and

(c) Where an entity uses indicators that are based on amounts derived from non-IPSAS-based information and the indicators affected.

58. An entity should disclose the principles, assumptions and methodology that underpin the projections including the following information:

(a) Key aspects of governing legislation and regulation;

(b) Underlying macro-economic policy and fiscal frameworks, including details of where other publicly available reports on these policies and frameworks can be accessed, including documents outside the GPFRs;

(c) The key current policy assumptions and the key demographic and economic assumptions that underpin the projections;

(d) Its policy for reviewing and updating current policy assumptions and, demographic and economic assumptions;

(e) An explanation of any significant current policy assumptions that depart from current legislation or regulation;

(f) An explanation of significant changes in the principles, assumptions and methodologies from the previous reporting period, the nature and extent of these changes, and the reasons for such changes;

(g) The results of any sensitivity analyses that could have a significant impact on the projections;

(h) The discount rates applied and the basis on which the discount rate has been determined; and

(i) The approach to inflation and the reason for this approach.

Appendix A

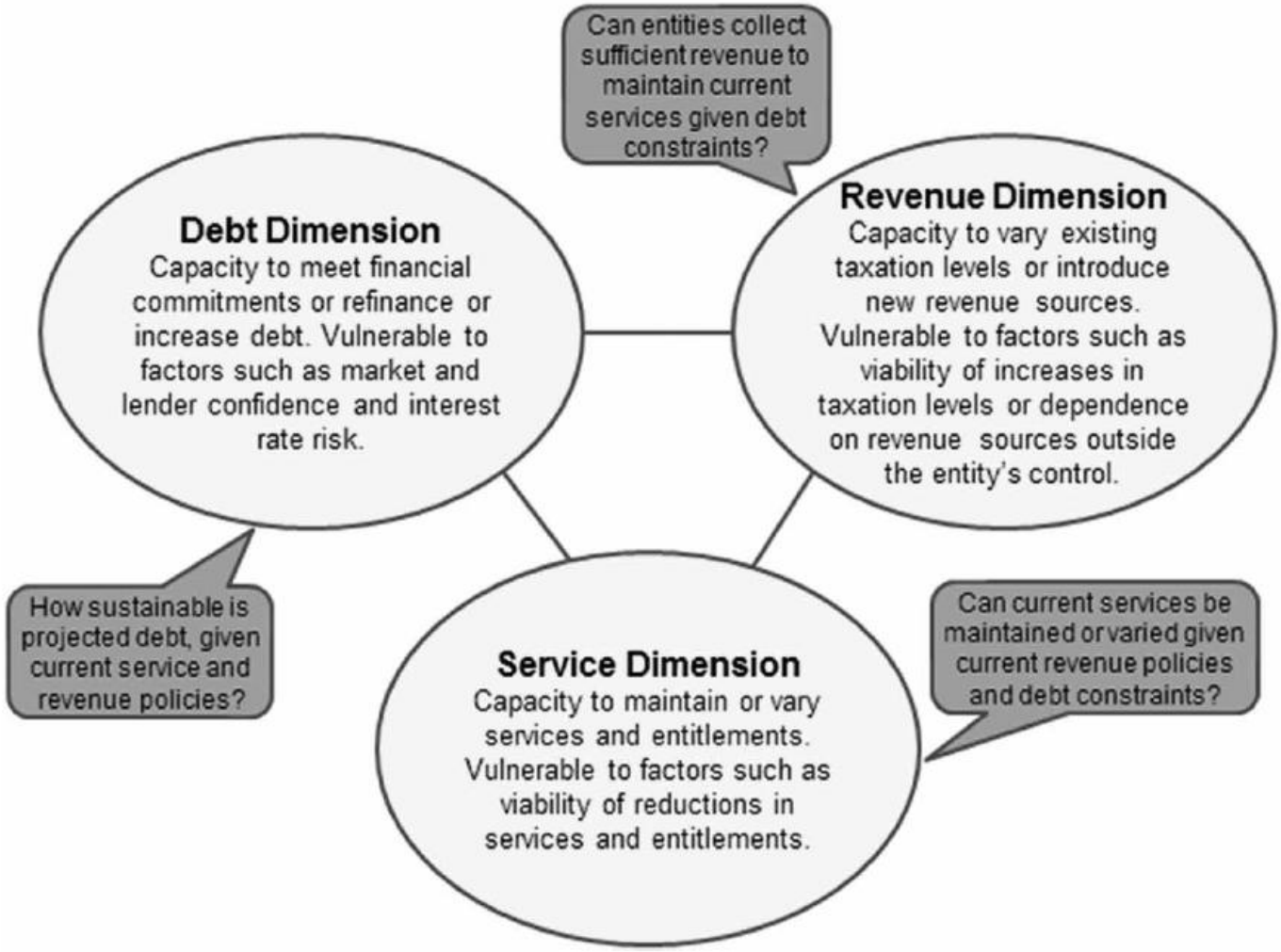
Terms in this RPG Defined in IPSAS

Term	Definition
Assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.
Cash	Comprises cash on hand and demand deposits.
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).
Controlling entity	An entity that has one or more controlled entities.
General government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting.
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Appendix B

Relationships Between the Dimensions of Long-Term Fiscal Sustainability

This Appendix illustrates the two aspects (capacity and vulnerability) of each of the three dimensions and the relationship between the three dimensions.



Appendix C

Glossary of Indicators

This Appendix lists examples of indicators. It is not intended to be an exhaustive list.

Government Finance Statistics Reporting Guidelines

Where an indicator includes a defined term, that term is shown in italics and its definition is shown after the indicators.

- **Gross debt, total**: Total gross debt—often referred to as "total debt" or "total debt liabilities"—consists of all *liabilities* that are *debt instruments*. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Net debt:** Net debt is calculated as gross debt minus *financial assets* corresponding to debt instruments.[4]
- **Net financial worth:** Net financial worth of an *institutional unit* (or grouping of units) is the total value of its *financial assets* minus the total value of its outstanding *liabilities*.[4]
- **Net worth:** Net worth of an *institutional unit* (or grouping of units) is the total value of its *assets* minus the total value of its outstanding *liabilities*.[4]
- **Overall balance:** This term corresponds to the GFS 1986 terminology of "Overall Deficit/Surplus," which is defined as revenue plus grants received less expenditure less "lending minus repayments." The balance so defined is equal (with an opposite sign) to the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes. The basis of this balance concept is that government policies are held to be deficit- or surplus-creating, and thus the revenue or expenditures associated with these policies are "above the line." Borrowing or a rundown of liquid assets, however, is deficit financing or "below the line." It should be noted that the term "lending minus repayments" included above the line covers government transactions in debt and equity claims on others undertaken for purposes of public policy rather than for management of government liquidity or earning a return.[5]
- **Primary balance:** The overall balance, excluding interest payments. Since interest payments represent the cost of past debt, and the determinants of future debt that are under policy control of government are other spending and revenue measures exclusive of interest payment, the primary balance is of particular importance as an indicator of the fiscal position in countries with high levels of debt.[5]

Underlying Definitions

- **Debt instrument:** A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Economic assets:** Economic assets are entities (i) over which economic ownership rights are enforced by institutional units, individually or collectively, and (ii) from which economic benefits may be derived by their owners by holding them or using them over a period of time.[4]
- **Financial assets:** Financial assets consist of financial claims plus gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability.[6]

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4 Source: International Monetary Fund: Public Sector Debt Statistics—Guide for Compilers and Users 2011.

5 Source: International Monetary Fund: Manual on Fiscal Transparency (2007).

6 Source: International Monetary Fund: Public Sector Debt Statistics—Guide for Compilers and Users 2011.

- **Institutional unit:** An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities.[6]
- **Liability**: A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor).[6]

Other Sources

- **Fiscal gap**: The fiscal gap is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP).[7] More specifically, the fiscal gap is the net present value of projected spending[8] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. (Source: US Federal Accounting Standards Advisory Board: Statement of Federal Financial Accounting Standards 36: *Comprehensive Long-Term Projections for the U.S. Government* 2009).
- **Inter-temporal budget constraint:** The inter-temporal budget constraint is satisfied if the projected outflows of the government (current public debt and the discounted value of all future expenditure, including the projected increase in age-related expenditure) are covered by the discounted value of all future government revenue. (Source European Commission: *Sustainability Report:* 2009).
- **Net Debt/Total Revenues**: Net debt as a proportion of total revenues. (Source Canadian Public Sector Accounting Board (PSAB): Statement of Recommended Practice 4 (SORP 4), *Indicators of Financial Condition: 2009*).

[7] GDP is the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports-imports).

[8] Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("non-interest spending").

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 1.

Background

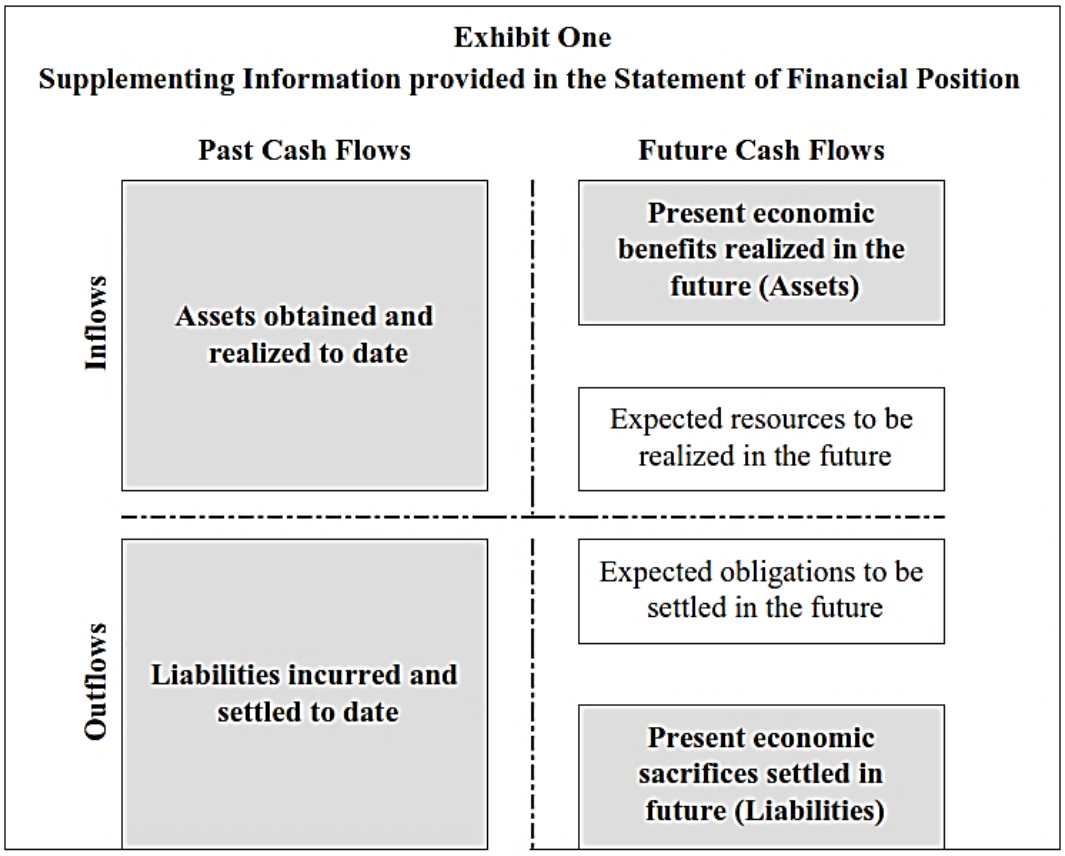
BC1. The IPSASB initially launched a project on accounting for social policy obligations (subsequently re-termed social benefits) in 2002. This led to the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Governments*, in January 2004. Following an analysis of responses to that ITC, the IPSASB began to develop proposals for accounting for obligations related to different sub-categories of social benefits. In late 2006, due to failure to agree on recognition points and measurement requirements for liabilities, the IPSASB decided not to develop further proposals on recognition and measurement at that time.

BC2. As an interim step the IPSASB developed proposals for the disclosure of amounts to be transferred to those eligible at the reporting date for cash transfers (benefits settled in cash). It expressly did not propose the disclosure of obligations and liabilities. ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, was issued in March 2008.

BC3. The deliberations on identifying the point at which liabilities for social benefits arise had led the IPSASB to the view that the financial statements cannot provide all the information that users need on social benefits. This is illustrated in Exhibit One below where the shaded boxes indicate information provided in the financial statements. The IPSASB considered that before launching any further project it should consult constituents. Therefore the IPSASB raised this issue in a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement,* and issued a Project Brief, *Long-Term Fiscal Sustainability* Reporting. Both these documents were issued at the same time as ED 34.

Exhibit One

Supplementing Information provided in the Statement of Financial Position



BC4. In October 2008 the IPSASB reviewed responses to all of the above documents. In the light of these responses, it was decided not to develop ED 34 into an IPSAS. The IPSASB also noted that a large majority of respondents agreed that the financial statements cannot convey sufficient information to users about the long-term financial implications of governmental programs providing social benefits.[9] In light of this view the IPSASB decided to initiate a project on long-term fiscal sustainability (subsequently re-termed *"Reporting on the Long-Term Sustainability of Public Finances*"). This led to the issue of a Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances*, in November 2009. Drawing on existing practice the Consultation Paper put forward the case for reporting long-term fiscal sustainability information, made suggestions on how such information might be presented and sought the views of constituents. The majority of respondents to the Consultation Paper favored the continuation of the project, although many said that they preferred the IPSASB to develop guidelines rather than requirements.

BC5. In light of the responses to the Consultation Paper, the IPSASB developed ED 46.RPG, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*, which was issued in October 2011. This ED proposed non-authoritative guidance for public sector entities reporting long-term fiscal sustainability information.

BC6. The IPSASB has further developed its thinking on reporting long-term fiscal sustainability information in the course of its project on *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and, in particular, in Chapter 2 of that Framework. Chapter 2: *Objectives and Users of General Purpose Financial Reporting* reflects the view that, although the financial statements are at the core of financial reporting, a more comprehensive scope is necessary to meet the needs of users. That scope includes prospective financial information. The IPSASB has also noted that projected outflows relating to obligations as a result of past decisions and projected inflows related to sovereign powers and taxation powers may not be recognized or may only be partially recognized in the statement of financial position and the statement of financial performance. Therefore, in order to meet the financial reporting objectives of accountability and decision making, an entity should provide users with information on future inflows and outflows that supplements information on the entity's financial position in the financial statements.

BC7. The IPSASB acknowledges that the rationale for reporting long-term fiscal sustainability information in paragraph BC6 might indicate that for some entities such reporting should be required. However, the IPSASB concluded that it would be premature to issue an authoritative pronouncement, because reporting long-term fiscal sustainability information in GPFRs is an area where practice is developing and the IPSASB wishes to encourage innovative and flexible approaches. This approach is consistent with the views of the majority of respondents to ED 46. The IPSASB notes that paragraph 4 of the RPG notes that it is good practice to follow this RPG.

Completion of the Conceptual Framework and the Social Benefits projects

BC7A. The IPSASB recognized linkages between its work in developing RPG 1, the Conceptual Framework and accounting for social benefits. RPG 1 was published in 2013 when the work on the Conceptual Framework and Social Benefits projects were ongoing. In October 2014 and January 2019, the IPSASB finished these projects by publishing the Conceptual Framework and IPSAS 42, *Social Benefits*, respectively.

[9] Further work on proposals for the recognition and measurement of liabilities arising from obligations to deliver social benefits has progressed indirectly in Phase 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* project. This phase deals with elements, and includes the development of the definition of a liability and other relevant issues such as whether the power to tax is an asset. This work is likely to influence the approach to recognizing and measuring liabilities related to social benefits. The IPSASB decided to reactivate its project on social benefits at its June 2013 meeting.

Scope

BC8. The IPSASB considered whether the scope of the RPG should be limited to the consolidated national and whole-of-government levels. The IPSASB acknowledged that reporting long-term fiscal sustainability information is particularly relevant at these levels, but concluded that there might be significant user demand for such information at sub-national levels. The IPSASB therefore concluded that a narrow scope limited to the national and whole-of-government levels is not justified. The factors considered by the Board in determining whether an entity should report long-term fiscal sustainability information are discussed in paragraphs BC14-BC17.

Definitions

Long-Term Fiscal Sustainability

BC9. The Consultation Paper noted that there is no universally accepted definition of long-term fiscal sustainability and included a working definition that long-term fiscal sustainability is "the ability of government to meet its service delivery and financial commitments both now and in the future." The IPSASB acknowledged the view that this definition is insufficiently rigorous and that a definition should be adopted that provides users with a clearer indication whether an entity's current economic position is sustainable. Such an approach might involve (a) linking current service delivery obligations to the maintenance of current taxation levels and (b) focusing on projected debt paths. An entity that can only meet current service delivery obligations and financial obligations by increasing taxation or current debt levels is identified as being in an unsustainable position. Macro-economists tend to adopt this more rigorous approach and focus on "explosive" debt paths, which is a term that connotes that existing service levels and existing benefits from entitlement programs cannot be sustained without major increases in levels of indebtedness.

BC10. When this RPG was issued, the IPSASB decided to retain the definition of long-term fiscal sustainability used in the Consultation Paper for ED 46 and subsequently for this RPG, except for widening the scope to reflect that it can apply to all public sector entities (except [Government Business Enterprises]) (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016) rather than limiting it to governments. In coming to this conclusion the IPSASB noted the need for governments and public sector entities to both (a) provide services and meet obligations relating to entitlement programs and (b) meet financial obligations, principally debt servicing. The IPSASB also noted that many governments have sovereign powers to enact legislation for new taxation sources and to vary the levels of existing taxation, while acknowledging that in a global environment the ability to increase taxation might be practically constrained by a number of considerations. The IPSASB took the view that, provided an entity gives appropriate attention to the dimensions of long-term fiscal sustainability, as explained in paragraphs 27–40, users will be given adequate information about whether an entity can maintain existing service levels, meet obligations to the current and future beneficiaries of entitlement programs and meet financial obligations without increasing revenue from taxation and other sources or increasing borrowing.

Projections, Forecasts and Budgets

BC11. Several respondents to ED 46 suggested that the relationship between projections, forecasts and budgets should be clarified. Given that there are no universally accepted definitions of these terms, the IPSASB decided to develop a definition of a projection to clarify the characteristics of information that should be used in calculating the projections and to ensure that only calculations that meet these characteristics are within the scope of the RPG.

BC12. In developing its definition of a projection the IPSASB considered whether forward-looking financial information should be based on a strict adherence to legislation or regulation in force at the reporting date, or whether specific departures from legislation or regulation in force at the reporting date might be

appropriate. The IPSASB recognized that there may be limited cases where departures from current legislation or regulation may be appropriate in order to provide more relevant information. A projection is therefore defined as "forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions." Current policy assumptions are those "assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances." Circumstances where departures from current legislation or regulation are appropriate are detailed in paragraph 43 and discussed in paragraphs BC31-34.

BC13. Budgets and forecasts aim to provide details of intended outcomes. In contrast projections are not intended to provide approximations of actual outcomes. A budget is a plan of an entity's anticipated revenues or receipts and anticipated expenses or expenditure over a specified period. It may be related to service outputs or outcomes in the period. A forecast provides prospective information that includes anticipated actions and interventions by the entity although these may not be reflected in current legislation or regulation or within the limited departures inherent in the definition of a projection. The IPSASB agreed that some of the information in budgets or forecasts might also be used for projections.

Determining Whether to Report Long-Term Fiscal Sustainability Information

BC14. As discussed in paragraph BC8 the IPSASB concluded that the scope of the RPG should not be limited to particular levels of government. However, the IPSASB acknowledged that reporting long-term fiscal sustainability information might not be appropriate for all entities.

BC15. The Consultation Paper questioned whether reporting long-term fiscal sustainability information is appropriate for individual controlled entities. This reservation was based on a tentative view that (a) the cost of producing the information for such entities is likely to be greater than the benefits to users, (b) the production of separate reports and disclosures by individual entities within an economic entity might be confusing to users and (c) it could be misleading if entities with limited tax-raising powers and a dependence on resources from entities at other tiers of government provide projections that are contingent on taxation decisions over which they have little or no control. Some respondents to the Consultation Paper challenged this view and suggested that there are cases where users for long-term fiscal sustainability information of controlled entities can be identified. The example of a local government entity controlled by a state or provincial government was cited. These respondents proposed that the test for whether an entity reports long-term fiscal sustainability information should be to assess whether potential users exist for this type of information. The IPSASB was persuaded by these arguments and the RPG reflects these views in paragraphs 12 and 13.

BC16. The IPSASB acknowledged that direct evidence of the existence of users of long-term fiscal sustainability information might not be readily available. The IPSASB sought to identify characteristics which might indicate the existence of users across the three dimensions of long-term fiscal sustainability. The IPSASB had reservations about whether there would be significant numbers of users to justify the costs of reporting if entities did not have one or more of the following characteristics:

(a) Significant tax and/or other revenue raising powers;

(b) Powers to incur significant debt; or

(c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

BC17. The IPSASB believes that reporting long-term fiscal sustainability information is likely to be relevant at the whole of government level, consolidated national level, and for major sub-national entities such as regions, provinces, states and large local government entities (for examples, cities), which have tax raising powers enabling them to generate a significant proportion of their total revenues. The IPSASB remains of the view

that reporting long-term sustainability information is unlikely to be appropriate for individual government departments and entities. This is because often they do not have tax raising powers, their expenditure is controlled through appropriations, and they do not have powers to incur debt.

Presenting Projections of Future Inflows and Outflows

BC18. The Consultation Paper considered three models for reporting long-term fiscal sustainability information and suggested that (a) the provision of additional statements providing details of projections and (b) summarized projections in narrative reporting were appropriate. Some respondents suggested that, although the Consultation Paper acknowledged that these reporting approaches were not mutually exclusive, the IPSASB should highlight that reporting long-term fiscal sustainability information just by displaying projections in statements is insufficient to meet user needs and that other presentation methods need to be deployed. The IPSASB was persuaded by this view and agreed to reflect this in paragraph 17 of the RPG).

BC19. The IPSASB considered whether it should recommend time horizons for projections for entities at particular levels of government. It acknowledged the view that standard time horizons for particular types of public sector entity might enhance comparability. The IPSASB decided that such benchmarks would be over-prescriptive and impractical. The scope of the RPG is such that standard time horizons would have to be determined for a wide range of entities, including individual reporting entities.[10] In addition the fiscal autonomy of entities at the same level of government can differ markedly between jurisdictions. The IPSASB concluded, however, that it is good practice for entities to explain the reason for the time horizons that they select. The IPSASB considers that the extent of an entity's dependence on other entities for funding will have an impact on time horizons; the higher the level of dependence, the higher the likelihood of shorter time horizons.

BC20. The Consultation Paper included illustrative examples of tabular statements showing 75 year projections for key programs and activities. The IPSASB noted the view of some respondents that a focus on the position at the end of the time horizon may obscure events between the reporting date and the end of the time horizon. The IPSASB accepted this view and included guidance on the need to balance the QCs of verifiability, faithful representation and relevance in displaying projections in paragraph 25 of the RPG.

Addressing the Dimensions of Long-Term Fiscal Sustainability

BC21. The IPSASB considered that providing a flexible framework for the disclosure of information might help entities to organize the way in which they communicate information and ensure that information is a faithful representation of an entity's long-term fiscal sustainability information.

BC22. ED 46 included three dimensions of long-term fiscal sustainability, as follows:

- Fiscal capacity;
- Service capacity; and
- Vulnerability.

BC23. The description of vulnerability was derived from the definition of vulnerability in Statement of Recommended Practice 4 (SORP-4), *Indicators of Financial Condition* issued by the Canadian Public Sector Accounting Board (PSAB). The definition in SORP-4 is "the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others." The IPSASB considered that a variant of this notion is particularly important for entities at sub-national levels which have limited taxation powers and are therefore exposed to decisions, over which they have no or very limited control, taken by other entities at other levels of government.

[10] For example, such entities might include school boards or bodies responsible for water and drainage.

BC24. The descriptions of the other two dimensions in ED 46 were derived from the US Governmental Accounting Standards Board's (GASB)[11] definitions of "fiscal capacity" and "service capacity." The GASB defines fiscal capacity as "the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis" and service capacity as "the government's ability and willingness to meet its commitments to provide services on an ongoing basis."

BC25. When developing the RPG based on ED 46, the IPSASB considered whether the notion of vulnerability in the ED was too narrow and whether vulnerability is a more pervasive factor in the analysis of the long-term fiscal sustainability of an entity's finances. The IPSASB concluded that vulnerability is an aspect of all three dimensions. Therefore, the IPSASB decided to (a) explain how the notion of vulnerability affects each dimension of long-term fiscal sustainability and (b) change the name of the vulnerability dimension to the revenue dimension because its description relates to changes in revenues.

BC26. The IPSASB also noted that the dictionary definition of "fiscal" includes revenue[12] while the description of fiscal capacity relates to the ability of the entity to meet financial commitments, in other words, its ability to maintain and service its debt. Therefore the IPSASB decided that the name of this dimension should be changed to the debt dimension to more closely reflect the description. The renaming of these two dimensions required a modification to the service capacity dimension so that the wording of the three dimensions is consistent. The IPSASB acknowledged that the dimensions are inter-related.

BC27. The IPSASB noted that the approach taken by the PSAB and the GASB had similarities to the "dimensions" of sustainability developed by Allen Schick[13] and discussed in the Consultation Paper.

BC28. One of the dimensions that Schick discussed was "economic growth." The IPSASB considered that explicitly introducing a dimension of economic growth was inappropriate because the determinants of economic growth are complex and not under the control of the reporting entity. However, assumptions about economic growth will be critical to the development of projections and are likely to feature heavily in sensitivity analyses.

Principles and Methodologies

BC29. The Consultation Paper discussed the principles that should be adopted for the inclusion of programs and activities in reporting long-term fiscal sustainability information and methodologies central to the outcome of projections. The areas addressed included whether projections should be based on current or future policy, the approach to revenue inflows, the approach to age-related and non-age-related programs and the approach to sensitivity analysis. The IPSASB considered whether, in order to meet the qualitative characteristic of comparability, the IPSASB should make firm recommendations on good practice.

BC30. The IPSASB did not consider it appropriate to make firm recommendations on good practice because (a) the scope of the RPG includes all public sector entities and practice that is appropriate at one level of government may not be suitable elsewhere in the public sector, (b) while reporting long-term fiscal sustainability information has become a feature of financial management in an increasing number of jurisdictions it is at an early stage of development and (c) it is not the intention of the IPSASB to usurp the role of other professional groups with expertise in this area. In some cases the IPSASB has considered it appropriate to express a view on a preferred high level approach. For example, the IPSASB has taken the view that projections are likely to be most useful when they are based on current policy assumptions and encompass both inflows as well as outflows. The IPSASB also noted that, at the national level, the Organisation for Economic Cooperation and Development has recommended that projections should be updated on an annual basis.

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11 Preliminary Views of the Governmental Accounting Standards Board on Major Issues related to Economic Condition Reporting: Financial Projections. (Governmental Accounting Standards Board: Norwalk, CT, USA, November 2011).

12 The definition of fiscal is "of or relating to taxation, public revenues, or public debt" (Webster's Ninth New Collegiate Dictionary, 1984).

13 Allen Schick, Sustainable Budget Policy: Concepts and Approaches (OECD: Paris, 2005).

Current Policy Assumptions

BC31. Paragraphs 40–42 of ED 46 explained that an entity can depart from using current policy to calculate its projections (a) where there is a conflict between current policy and legal obligations and (b) where a policy has "sunset provisions."

BC32. The IPSASB introduced the term "current policy assumptions" to clarify that current policy means current legislation or regulation with departures where appropriate. Current policy assumptions are applied to the entire projection period for inflows or outflows that are individually projected. The RPG gives examples of where a departure may be appropriate in paragraphs 44-46. The IPSASB noted that paragraph 58(e) of the RPG recommends that any departures from current legislation or regulation be disclosed together with the reasons for such departures.

BC33. A respondent to ED 46 raised a concern that the concept of current policy should be broader than that proposed in the ED to deal with issues such as fiscal drag. Fiscal drag refers to the phenomenon that income tax inflows grow faster than the income it is levied on because, as an individual's income grows, an increasing proportion of it is taxed at a higher rate. Fiscal drag occurs if the rates and thresholds for the taxation of individuals are not adjusted over time, and is often addressed by governments through periodic increasing of tax thresholds.

BC34. The IPSASB concluded that the issue of fiscal drag is addressed in paragraph 47 of the RPG because it permits current policy assumptions to be applied to the demographic and economic assumptions, including assumptions over inflation. When a flow such as tax is modeled it may be based on a percentage of a variable such as GDP or reflect the application of current policy assumptions to the changing circumstances reflected in the demographic and economic assumptions.

Revision of RPG 1 as a result of the IPSASB's *The Applicability of IPSAS,* issued in April 2016

BC35. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about the applicability of IPSAS to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of RPG 1 as a result of *Improvements to IPSAS, 2021*

BC36. Stakeholders noted that the Basis for Conclusions (paragraphs BC1-BC7) in RPG 1 provided a background that highlighted the linkages between RPG 1, the Conceptual Framework and Social Benefits projects. RPG 1 indicated these projects as ongoing when RPG 1 was issued in July 2013. Since these projects have been completed, the IPSASB agreed to add paragraph BC7A in *Improvements to IPSAS, 2021* to indicate that the Conceptual Framework and Social Benefits projects were completed in October 2014 and January 2019, respectively.

Additional Guidance for RPG 1 as a result of *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative*

BC37. In March 2022, the IPSASB decided to address an urgent stakeholder concern by adding the limited scope project, Reporting Sustainability Program Information. The project responded to the need to provide public

sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPG) to reporting sustainability program information in general purpose financial reports.

BC38. To clearly communicate the applicability of RPG 1, the IPSASB decided to add non-authoritative guidance to RPG 1 to demonstrate how the authoritative guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 1 are relevant for an entity to report the financial impacts of sustainability programs and that they should be included when developing its overall financial projections.

BC39. The IPSASB decided to add IG1-IG3 to communicate:

(a) That RPG 1 applies to reporting sustainability program information and its financial impact on the long-term sustainability of an entity's finances;

(b) How sustainability program's impacts on the dimensions of long-term fiscal sustainability should be assessed; and

(c) The principles applicable for reporting on sustainability program information.

BC40. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability-related transactions in general purpose financial statements. RPG 1 provides guidance on disclosures in general purpose financial reports on the overall financial impact of government programs, including programs related to sustainability, on an entity's long-term financial projections.

BC41. The IPSASB considered whether paragraph 4 should be amended to remove the statement that RPG 1 was not designed for reporting on environmental sustainability. The IPSASB decided not to amend paragraph 4 because RPG 1 does not address broad environmental sustainability reporting. However, the second sentence in paragraph 4 makes clear, RPG 1 reporting captures the financial impact of environmental factors and notes that these should be taken into account when developing an entity's long-term financial projections.

BC42. ED 83, *Reporting Sustainability Program* Information received strong support from constituents on its proposed implementation guidance. Constituents suggested minor modifications to the proposals to better align them with the authoritative guidance. Some constituents proposed changes beyond the limited scope of ED 83, such as developing a definition of 'sustainability' or 'sustainability program information'. This project introduced amendments to highlight the applicability of existing concepts and principles in RPG 1 that reporting entities can apply when reporting on sustainability program information. The IPSASB decided that recommendations on the broader scope of sustainability reporting in the public sector were beyond the scope of this project.

Implementation Guidance

This guidance accompanies, but is not part of, RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances.

Does RPG 1 apply to reporting information on the impact of sustainability programs on an entity's overall finances?

IG1. Yes, RPG 1 provides principles to apply when reporting on an entity's overall long-term fiscal sustainability, including those relating to sustainability programs, provided that the respective inflows and outflows are included when developing projections.

How should sustainability program impacts on the dimensions of long-term fiscal sustainability be assessed?

IG2. RPG 1, paragraph 27 discusses three inter-related dimensions of long-term fiscal sustainability:

- Service;
- Revenue; and
- Debt

Sustainability programs can impact all of these dimensions in terms of future inflows and outflows. The impacts of sustainability programs should therefore be modelled and included in the overall projections based on assumptions regarding current policies, and about future demographic and economic conditions. Depending on the purpose of the report, and their significance, the impacts of such programs can either be presented separately or as part of the overall totals.

Which principles should be applied when reporting on the impacts of sustainability programs?

IG3. All of the guidance in RPG 1 should be applied when reporting on the projected future inflows and outflows associated with sustainability programs, including guidance related to policy, demographic and economic assumptions. Sensitivity analysis may be used to help users understand the impacts of significant changes in demographic and economic assumptions on the projections.

RPG 2, *FINANCIAL STATEMENT DISCUSSION AND ANALYSIS*

History of RPG Guideline

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

RPG 2, *Financial Statement Discussion and Analysis* was issued in July 2013.

Since then, RPG 2 has been amended by the following IPSAS *Accounting* Standards:

- *The Applicability of IPSAS* (Issued April 2016)

Table of Amended Paragraphs in RPG 2

Paragraph Affected	How Affected	Affected By
6	Deleted	*The Applicability of IPSAS* April 2016

RPG 2, *FINANCIAL STATEMENT DISCUSSION AND ANALYSIS*

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Objective

1. This Recommended Practice Guideline (RPG) provides guidance for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial position, financial performance and cash flows presented in the general purpose financial statements (hereafter referred to as “financial statements”).

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSAS).

3. Financial statement discussion and analysis should be presented at least annually and should use the same reporting period as that covered by the financial statements.

4. The reporting boundary for financial statement discussion and analysis should be the same as that used for the financial statements.

5. Financial statement discussion and analysis should be issued with the financial statements.

6. [Deleted]

7. Financial statement discussion and analysis should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

8. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is a legislative or regulatory requirement, or required by other externally imposed regulations. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

Definition

9. The following term is used in this RPG with the meaning specified:

   Financial statement discussion and analysis is an explanation of the significant items, transactions and events presented in an entity’s financial statements and the factors that influenced them.

   Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSAS) are set out in Appendix A.

Identification of Financial Statement Discussion and Analysis

10. Financial statement discussion and analysis should be clearly identified, and distinguished from the financial statements and from other information.

11. Separate identification of financial statement discussion and analysis enables users to distinguish:

    (a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSAS;

    (b) Financial statement discussion and analysis prepared in accordance with this RPG; and

    (c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSAS or recommendations in RPG (but could be the subject of guidance in other RPG).

12. Financial statement discussion and analysis should identify the financial statements to which it relates.

Presenting Financial Statement Discussion and Analysis

13. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight into the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity's interpretation of significant items, transactions and events affecting the financial position, financial performance and cash flows of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.

14. Information in financial statement discussion and analysis should meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs)[1].

Content of Financial Statement Discussion and Analysis

15. The content of financial statement discussion and analysis should be consistent with the financial statements and the underlying items, transactions and events, as well as assumptions such as those relating to recognition and measurement.

16. Financial statement discussion and analysis should include the following, without merely replicating information in the financial statements:

    (a) An overview of the entity's operations and the environment in which it operates;

    (b) Information about the entity's objectives and strategies;

    (c) An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and

    (d) A description of the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.

17. The form and specific content of an entity's financial statement discussion and analysis should reflect the nature of the entity and the regulatory environment in which it operates.

18. Where financial statement discussion and analysis includes information that is also in the financial statements, it should not merely repeat what is in the financial statements, but should analyze and explain how items, transactions and events affect the entity's financial position, financial performance and cash flows. Financial statement discussion and analysis should include cross-references to the financial statements where appropriate to avoid duplication of information.

Overview of the Entity's Operations and Environment

19. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects its financial statements. This information assists users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior period, relating to:

    (a) The entity's mission and vision;

    (b) The entity's governance (e.g., legislative or regulatory structure, management structure);

[1] The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* for further details.

(c) The entity's relationships with other entities, with a focus on relationships that could significantly affect the entity's financial position, financial performance and cash flows (e.g., funding arrangements);

(d) External trends, events and developments in the legal, regulatory, social, political and macro-economic environment specific to the entity, which have or may have a significant impact on the entity's financial position, financial performance and cash flows (e.g., the impact of events in international markets on employment, the tax base, or interest rates); and

(e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

Information about the Entity's Objectives and Strategies

20. Financial statement discussion and analysis should discuss the entity's objectives and strategies relating to its financial position, financial performance and cash flows in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies. For example, such objectives and strategies could include managing surplus/deficit, and managing the levels of debt and reserves. Financial statement discussion and analysis should explain how achievement of the entity's objectives would be measured and over what time period progress would be measured.

21. Financial statement discussion and analysis should discuss significant changes in an entity's objectives and strategies from the previous period or periods.

Analysis of the Entity's Financial Statements

22. Financial statement discussion and analysis should include an analysis of significant changes and trends in an entity's financial position, financial performance and cash flows. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position, financial performance and cash flows and changes in financial position, financial performance and cash flows over a period of time.

23. Financial statement discussion and analysis should describe the significant items, transactions and events that have affected the financial position, financial performance and cash flows, without simply reiterating the information presented in the financial statements. Judgment is required in identifying the significant items, transactions and events.

24. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact should be disclosed along with the nature of and reasons for the adjustments. When financial performance measures are derived from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IPSAS.

25. Comparative information should be disclosed for amounts presented in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statement discussion and analysis.

26. When an entity is required or elects to make its approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in other public reports. When an entity elects to include this information in its financial statement discussion and analysis, it should apply the guidance in IPSAS 24 to these disclosures.

Risks and Uncertainties

27. Financial statement discussion and analysis should discuss the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows and include an explanation of how this relates to the objectives and strategies of the entity. This information would help users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) as well as expected outcomes.

28. The principal risks and uncertainties can be external or internal risks; any description of these risks and uncertainties should cover exposures to both negative consequences and potential opportunities.

29. A discussion of how the entity manages its risks and uncertainties helps users obtain a faithful representation of the entity's exposure to risks that directly affect financial statement items, which allows them to evaluate the entity's financial position, financial performance and cash flows. Such disclosure may include the entity's decision to "self-insure" in respect of some risks, or to mitigate risk by transferring or sharing it through insurance.

30. A discussion of these risks and uncertainties would provide relevant information to users about exposure or vulnerability to concentrations of risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.

31. Risks and uncertainties that affect the financial position, financial performance and cash flows may have a pervasive effect on the financial statements. Therefore, information relating to these risks and uncertainties may be reported separately, or in relevant sections throughout financial statement discussion and analysis.

Appendix A

Terms in this RPG Defined in IPSAS

Term	Definition
Approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 2.

Background

BC1. The IPSASB approved a project in March 2008 to address "narrative reporting". In developing this RPG, the IPSASB clarified that the scope of the project was to address only those reports that provide discussion and analysis specifically relating to an entity's general purpose financial statements ("financial statements") as set out in IPSAS 1, *Presentation of Financial Statements* and not broader types of reports that may be considered general purpose financial reports as envisaged in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*). The IPSASB considers that it is important to provide narrative information related directly to the financial statements since this provides useful information for accountability and decision-making by users of financial statements.

BC2. In undertaking this project, the IPSASB considered, under its *Process for Reviewing and Modifying IASB Documents*, whether to develop guidance that was converged with *Management Commentary*, an IFRS Practice Statement. The IPSASB did not consider this approach to be appropriate because the users identified in the Practice Statement are investors whereas Chapter 2 of the *Conceptual Framework* identifies different users, which results in different information needs related to the financial statements. On this basis the IPSASB decided it was important to develop guidance on financial statement discussion and analysis specific to the public sector. Financial statement discussion and analysis assists users of public sector entities' financial statements by complementing and supplementing the financial statement explanations with insights and perspectives.

BC3. Financial statement discussion and analysis is intended to address similar matters to reports that may be termed "management discussion and analysis" and "management commentary" in various jurisdictions. However, the IPSASB did not consider those terms to accurately describe the nature of the report in relation to the financial statements. The IPSASB decided it was important to link financial statement discussion and analysis to the financial statements because financial statement discussion and analysis is intended to explain the financial statements, and not to stand alone. The IPSASB considers the term "financial statement discussion and analysis" clearly defines the scope of applicability of this RPG and its close linkage to the financial statements.

Exposure Draft 47, *Financial Statement Discussion and Analysis*

BC4. The IPSASB developed Exposure Draft (ED) 47, *Financial Statement Discussion and Analysis* which was issued in March 2012. This ED proposed that entities that prepare and present their financial statements in accordance with IPSAS should be required to prepare financial statement discussion and analysis. This meant that financial statement discussion and analysis would have the same level of authority as accrual-based IPSAS even though it related to a GPFR.

BC5. In developing the ED the IPSASB considered that financial statement discussion and analysis provides additional information necessary to meet the objectives of financial statements. Furthermore, the IPSASB considered that the benefits of providing financial statement discussion and analysis would outweigh the costs of preparing it, as the information is used in the preparation of the financial statements, and tailored to the specific circumstances of the entity. The IPSASB therefore proposed that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSAS.

BC6. Some respondents to the ED raised the concern that entities might not be able to assert compliance with IPSAS applicable to the financial statements if they did not follow the proposed requirements in the ED (if

issued as an IPSAS). In particular, respondents were concerned that financial statement discussion and analysis might still be considered to be a part of the IPSAS reporting framework even though the ED explicitly stated that financial statement discussion and analysis is not a component of the financial statements. Some of these respondents suggested that this would not be an issue if the ED was developed into non-authoritative guidance, e.g., a Recommended Practice Guideline (RPG).

BC7. The IPSASB considered whether the ED should be developed as an IPSAS or an RPG. The IPSASB considered this issue in the context of whether or not authoritative pronouncements could be developed for GPFRs, an issue on which members had varying views. The IPSASB noted that the scope of its *Conceptual Framework* is not limited to general purpose financial statements.

BC8. Respondents to the ED were split on this issue with a slight majority favoring the material not becoming an IPSAS. Of those not in favor of issuing an IPSAS, the majority of respondents expressed a clear view that it should be issued as guidance similar to the proposed RPG *Reporting on the Long-Term Sustainability of an Entity's Finances*.

BC9. As a well-established area of GPFRs, an authoritative pronouncement on financial statement discussion and analysis would help entities meet the accountability objective of financial reporting since it would enable users to gain an insight into the operations of the entity from the perspective of the entity itself. Financial statement discussion and analysis is an explanation of the financial statements but is not part of the financial statements and therefore it is not required for the fair presentation of the financial statements.

BC10. On balance the IPSASB decided that the ED should be developed into an RPG. The IPSASB considers that this RPG provides useful guidance for entities and its flexible application could benefit entities in jurisdictions that have local requirements or regulations. It will also promote comparability across entities that present financial statement discussion and analysis. Furthermore, the IPSASB considers that the RPG might encourage entities that are not accustomed to presenting financial statement discussion and analysis to provide users with this information.

BC11. Because financial statement discussion and analysis contributes to meeting the accountability objective of financial reporting, the IPSASB decided that it should consider the authority of this pronouncement on financial statement discussion and analysis in the future.

Forward-Looking Information

BC12. The IPSASB considered whether it should recommend that an entity disclose forward-looking information, such as forecasts. The IPSASB acknowledged concerns that in some jurisdictions providing forward-looking information might be seen as signaling political intent or committing a public sector entity to certain future actions. In addition, whether forward-looking information can be included in financial statement discussion and analysis will vary depending upon the regulatory and budgetary reporting environment in which the entity operates. Some members expressed the opinion that not including forward-looking information could have an impact on the ability of financial discussion and analysis to support decision-making of users and therefore its inclusion should be recommended. However, on balance the IPSASB decided not to recommend that an entity disclose forward-looking information, though such information may be provided if an entity so chooses.

Implementation Guidance and Illustrative Examples

BC13. ED 47 included Implementation Guidance on qualitative characteristics, and illustrative examples of information about the entity's financial statements and variances and trends. The IPSASB decided to delete the implementation guidance and illustrative examples on the basis that entities preparing financial statement discussion and analysis should focus on the guidance in the RPG. Moreover, the IPSASB observed that best-practice examples are available from other sources.

Revision of RPG 2 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC14. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about the applicability of IPSAS to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

RPG 3, *REPORTING SERVICE PERFORMANCE INFORMATION*

History of RPG Guideline

This version includes amendments resulting from IPSAS Accounting Standards and RPG Guidelines issued up to January 31, 2026.

RPG 3, *Reporting Service Performance Information* was issued in March 2015.

Since then, RPG 3 has been amended by the following IPSAS Accounting Standards and RPG Guidelines:

- *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* (issued May 2023)
- *The Applicability of IPSAS* (issued April 2016)

Table of Amended Paragraphs in RPG 3

Paragraph Affected	How Affected	Affected By
3	Deleted	*The Applicability of IPSAS* April 2016
IG1	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG2	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG3	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IG4	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE4	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE5	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE6	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE7	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023
IE8	Added	*Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative Guidance* May 2023

RPG 3, *REPORTING SERVICE PERFORMANCE INFORMATION*

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Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting service performance information in General Purpose Financial Reports (GPFRs). Service performance information is information on the services that the entity provides, an entity's service performance objectives and the extent of its achievement of those objectives. Service performance information assists users of GPFRs (hereafter termed "users") to assess the entity's service efficiency and effectiveness.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting service performance information should aim to achieve the principles set out in this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSAS).

3. Although this RPG does not apply directly to commercial public sector entities, the services provided by a commercial public sector entity controlled by the reporting entity are within the scope of this RPG.

4. Service performance information should not be described as complying with this RPG unless it complies with all the principles in this RPG.

5. This RPG outlines information to be presented. An entity may present additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics of financial reporting.

6. In some jurisdictions the presentation of service performance information is a legislative or regulatory requirement. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

7. A jurisdiction may have established service performance reporting requirements that extend beyond the guidelines in this RPG. These could include, for example, greater specification of required information organization, requirements for a larger set of information to display or disclose, and/or specific performance indicators or specific types of performance that are required to be presented. In that case the entity is encouraged to ensure that information identified through application of both this guideline and jurisdictional requirements is presented.

Definitions

8. The following terms are used in this RPG with the meanings specified:

   Effectiveness is the relationship between actual results and service performance objectives.

   Efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes.

   Inputs are the resources used by an entity to provide outputs.

   Outputs are the services provided by an entity to recipients external to the entity.

   Outcomes are the impacts on society, which occur as a result of, or are reasonably attributable to, the entity's outputs.

   Performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives.

   A service performance objective is a description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency.

9. The Implementation Examples that accompany RPG 3 illustrate the terms defined above.

Effectiveness

10. When reporting on its effectiveness the entity reports the extent to which one or more of its service performance objectives has been achieved. The more effectively an entity operates as a service provider, the better will be its actual results when measured against its planned results.

Efficiency

11. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to a reference such as:

    (a) Previous reporting periods;

    (b) Expectations;

    (c) Comparable service providers; or,

    (d) Benchmarks.

12. If the same quantity and quality of outputs can be produced at less cost than before then production efficiency has improved and an efficiency indicator designed to report that type of efficiency gain will show an improvement. Similarly, if the quality of a service improves so that the outcomes achieved are better than those previously attained, with other variables such as service quantity (outputs) and cost holding constant, then this represents an increase in efficiency, and an efficiency indicator designed to capture that type of efficiency gain will show an improvement. The converse—quality decreases so that outcomes are worse, with other variables such as service quantity (outputs) and cost holding constant—would indicate less efficient service provision.

Inputs

13. Resources used to produce outputs may include:

    (a) Human resources or labor;

    (b) Capital assets such as land, buildings and vehicles;

    (c) Cash and other financial assets; and,

    (d) Intangible assets such as intellectual property.

14. Inputs can be reported in terms of costs incurred or quantities used to produce outputs.

Outputs

15. Services provided by an entity to external recipients include:

    (a) Services provided directly to individuals and institutions—for example, health or education services or the provision of goods such as food or books;

    (b) Services provided indirectly to individuals and institutions—for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;

    (c) Transfers to individuals and institutions—for example, cash transfers and the provision of economic incentives such as tax incentives;

    (d) Policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and

    (e) Collection of taxes and other revenues.

16. The receipt of services by recipients external to the entity is a critical factor in deciding whether services are outputs, rather than services consumed internally as part of an entity's production of outputs.

Outcomes

17. An entity's outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's services. They could also be impacts on others that are not recipients of the entity's services but who benefit indirectly from those services.

18. Outcomes may include, for example, changes to educational achievements within society, changes to poverty and crime levels, or changes to the health of different groups within society.

19. There may be a strong, direct causal link between an entity's actions and its outcomes, but this will not always be the case. Factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes.

Performance Indicators

20. Inputs, outputs, outcomes, efficiency and effectiveness are types of performance indicators.

21. Performance indicators may be quantitative measures—for example, the number of outputs produced, the cost of services, the time taken to provide a service, or a numerical target for an outcome. Performance indicators may be qualitative measures—for example descriptors such as poor/good/excellent or satisfactory/unsatisfactory, which could include service quality ratings by service recipients, citizens or experts. Use of quantitative and qualitative measures may help users with:

    (a) Their assessment of whether service performance objectives have been achieved; and,

    (b) Inter-period and inter-entity comparisons of service performance.

22. A performance indicator could also be in the form of a qualitative description. A qualitative description may be necessary to provide users with relevant and understandable information on service performance where there is a high level of complexity and judgment involved in a particular service.

Service Performance Objective

23. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. A service performance objective may also be expressed using a narrative description of a desired future state resulting from provision of services.

24. Service performance objectives will generally be specific, measurable, achievable, realistic and time-bound.

25. An entity's service performance objectives may all be expressed in the same type of performance indicator; for example, all expressed in outcomes. They may also be expressed in different types of performance indicators; for example, some of the service performance objectives may be expressed in outcomes, while others are expressed in outputs and/or inputs.

26. A single service may contribute to achievement of one or more service performance objectives. Several services may contribute to the same service performance objective.

Reporting Boundary

27. For reporting service performance information the reporting boundary of the entity should be the same as that used for the financial statements.

28. The performance indicators presented will be relevant to the controlling entity's own service performance objectives. Unlike consolidated financial statements, which combine the finances of controlled entities, service

performance information reported by a controlling entity is not usually a combination of the services reported by its controlled entities.

Annual Reporting and Reporting Period

29. Service performance information should be reported at least annually.

30. Service performance information should cover the same reporting period as that covered by the financial statements. However, a consideration of users' needs and an assessment of costs and benefits may indicate that the reporting period should be different from that covered by the entity's financial statements. This may be the case, for example, when service performance information presented by a controlling entity is based on service performance information reported by controlled entities that have a different reporting period.

31. Service performance objectives may require periods longer than one year to achieve. Users will need information on progress towards such multi-year service performance objectives. Paragraph 53 addresses the type of service performance information that can be presented to show annual progress towards multi-year service performance objectives.

Principles for Presentation of Service Performance Information

32. An entity should present service performance information that is useful to users for accountability and decision making purposes. Presentation should enable users to assess the extent, efficiency and effectiveness of the entity's service performance. It should be appropriate to the entity's service performance objectives and make the relationship between the entity's service performance objectives and its service performance achievements clear.

33. When used in combination with the information in an entity's financial statements, service performance information should enable users to assess the entity's finances in the context of its achievement of service performance objectives and vice versa.

34. The service performance information presented should take account of the entity's specific circumstances, such as:

    (a) The services that the entity provides;

    (b) The nature of the entity; and,

    (c) The regulatory environment in which the entity operates.

35. The presentation of service performance information should achieve the qualitative characteristics of financial reporting, while applying the pervasive constraints on information in GPFRs. (The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) describes the qualitative characteristics and pervasive constraints.)

36. Aggregation or disaggregation of service performance information should be at a level that conveys a meaningful understanding of the entity's service performance achievements. The level of aggregation should not be so high as to conceal or obscure performance, while the level of disaggregation should not be so low as to result in detailed listings that also obscure performance and reduce understandability. Information reported should be sufficiently specific for users to hold the entity accountable for its service performance, particularly its performance with respect to its service performance objectives.

37. Comparability to other entities can be difficult to achieve in the context of service performance information since diverse services are provided. Even where two entities provide exactly the same service they may have different service performance objectives with the result that they need to report different, non-comparable performance indicators. Inter-entity comparability may need to be traded off against relevance, so that service performance objectives and their related performance indicators are chosen to be relevant to the service performance situation

of the entity. Alternatively the needs of users may indicate that performance indicators that are comparable with those of other entities delivering the same services are relevant to the entity, and the two qualitative characteristics—comparability and relevance—are aligned.

Selection of Service Performance Information

Information for Display

38. The following information should be displayed:

    (a) Service performance objectives;

    (b) Performance indicators; and,

    (c) Total costs of the services.

39. With respect to performance indicators and the total costs of the services, the entity should display:

    (a) Planned and actual information for the reporting period; and

    (b) Actual information for the previous reporting period.

40. Where service performance information includes information that is also in the financial statements, cross-references to the financial statements should be presented so that users can assess the information within the context of the financial information reported in the financial statements.

41. Information found in an entity's legislation and planning documents (budget statement, mission statement, strategic plan, funding agreements, corporate plan, etc.) will usually help to identify the service performance objectives and performance indicators that are relevant to the entity.

Service Performance Objectives

42. Where the entity's service performance objectives change, the information presented should reflect the change. For example, an entity may initially have service performance objectives related to increasing either the inputs or outputs related to its services, and then later re-focus its performance towards improving either the services' efficiency or effectiveness. That change should be reflected in the service performance information that the entity presents.

Performance Indicators

43. Judgment is needed to determine the most suitable set of performance indicators to be reported. The overriding principle is that indicators should be selected on the basis of their importance to users and their usefulness in assessing the entity's achievements in terms of its service performance objectives. For performance indicators to be relevant they should link directly to one or more of the entity's service performance objectives. Alignment between the different indicators presented—for example between input, output and/or outcome performance indicators—and the service performance objectives helps users to assess the relationship between resources and results, and how resource availability may have influenced achievement of service performance objectives.

44. The performance indicators presented should allow users to assess how efficiently and effectively the entity has used its resources to deliver services and achieve its service performance objectives.

45. Where an entity has publicly reported planned performance indicators the actual performance indicators presented will usually be consistent with those previously made public. Those entities that publish their budget information and apply IPSAS 24, *Presentation of Budget Information in Financial Statements*, should consider the relationship between that information and the service performance information that they report.

46. An entity is encouraged to display information about its intended outcomes and its achievements with respect to those outcomes.

47. There may be a large number of performance indicators that can be presented for an entity's service performance objectives. To ensure that the information is understandable and to avoid overwhelming users, entities generally will need to identify only those few key performance indicators that will best meet the needs of users for information that meets the objectives of financial reporting.

48. Performance indicators that involve quantification should be able to be measured reliably. Where performance indicators can be generated by a transaction processing system the use of such a system will support the verifiability and timeliness of reported information.

49. When selecting performance indicators entities should ensure that the indicators presented will provide a representationally faithful description of the achievement of service performance objectives. There may be trade-offs between different aspects of service performance, such that one aspect improves while another aspect deteriorates. Information presented should be neutral. Entities should avoid any tendency to present performance indicators that are biased towards reporting positive results. This helps to ensure that the qualitative characteristics are met and users can be confident that the performance indicators faithfully represent the entity's service performance.

50. Ease of measurement is likely to be a consideration when selecting performance indicators, but it should be secondary to the needs of users. The performance indicators presented should not over-emphasize easily measured dimensions.

51. In some situations a qualitative description (also called narrative information) should be presented as a performance indicator. This could be the case where service performance achievements cannot be reduced to a small set of quantitative or qualitative measures because the service:

    (a) Is complex;

    (b) Involves interrelated factors; and

    (c) Involves a large number of different possible indicators of success or progress, all of which involve judgment as to their relative importance.

52. Information reported on any particular service may include one or more different types of performance indicators; quantitative measures, qualitative measures and/or qualitative descriptions.

Multi-year Service Performance Objectives and Performance Indicators

53. The extended timeframe of multi-year service performance objectives should not be a deterrent to reporting multi-year objectives and disclosing progress towards their achievement, although ways to report on progress in a cost-effective way may need to be developed. Alternative or proxy measures that indicate progress towards achievement of the service performance objective may be able to be presented in the short-term, until information on achievement of the multi-year service performance objective is available. For example, where an entity establishes both annual outputs and longer term, multi-year outcomes for one or more service area there may be scope to treat annual reporting against outputs as indicative of progress towards achievement of the outcomes, with actual outcomes reported less frequently.

Total Costs of Services and Disaggregated Cost Information

54. In addition to display of the total costs of services, an entity may also choose to present disaggregated cost information. Disaggregated cost information could, for example, be costs related to individual service performance objectives, outcomes, service areas, individual services, the costs of outputs, or costs related to particular inputs. Users' assessment of efficiency may be supported through provision of costs related to either outputs or outcomes.

Planned and Actual Service Performance

55. Planned and actual service performance information should be reported consistently so that users' assessments of effectiveness are facilitated. Wherever possible, entities should report on the same performance indicators, with the same methodology and parameters for their computation, as that established before the start of the reporting period. This enables users to compare actual performance with planned performance at the end of the reporting period.

56. Consistency of performance indicators over several years facilitates long-term trend analysis. But such consistency should not be pursued at the expense of:

    (a) Improving the quality of performance indicators; or,

    (b) Aligning indicators with changed expectations from stakeholders.

57. An entity may need to address the issue of how to report on changes to planned service performance that occurred during the reporting period. This situation may arise, for example, when stakeholders revise their service performance expectations during the reporting period, resulting in an amendment to service performance objectives. Service performance objectives may also change as a result of a public sector combination, where accountability for services is transferred from one entity to another or reporting needs to be on services previously provided by two different entities and now provided by a single, merged entity. In these situations it may be possible for the entity to report against both the original and the revised service performance objectives. The reason for, and the impact of, these changes could be outlined in narrative discussion and analysis, so that users have the information they need to understand reasons for variances between service performance objectives at the beginning of the reporting period and actual achievements, while also understanding the degree of actual achievement against the more up-to-date, revised service performance objectives.

Information for Disclosure

58. Judgment is needed to decide what information should be disclosed so that users:

    (a) Understand the basis of the displayed service performance information; and,

    (b) Receive a concise overview of the entity's service performance, which highlights the main issues relevant to their assessment of that service performance.

Basis of Displayed Service Performance Information

59. An entity should disclose sufficient information on the basis of displayed service performance information to enable users to evaluate whether the information on service performance objectives, performance indicators and total costs achieves the qualitative characteristics of financial reporting.

60. An entity should disclose information on the sources of displayed service performance information.

61. The following information should be disclosed:

    (a) An explanation of the displayed service performance objectives, which describes how they have been established, the need for them to be achieved, and the relationship(s) between the service performance objectives and:

        (i) The displayed performance indicators, and

        (ii) The entity's overall objectives.

    (b) An explanation of the relationship(s) between related performance indicators. (For example, information on the extent of alignment between input, output and/or outcome indicators, where the inputs and outputs contribute to achievement of a particular outcome.)

(c) An explanation of the basis for information aggregation (or disaggregation), which addresses the level of detail reported.

Disaggregated Information on Costs

62. If an entity chooses to present disaggregated information on costs then the basis for cost determination should be disclosed.

63. Cost determination information includes information such as:

(a) Cost allocation policies;

(b) The treatment of direct and indirect service related expenses; and/or

(c) A reconciliation or a comparison between the costs of services presented and total expenses.

Controlling Entity Disclosures

64. Where a controlling entity reports on services provided by its controlled entities the controlling entity should disclose information that explains the respective roles and responsibilities for service performance within the economic entity.

Disclosures when Reporting Period is Different

65. When the service performance information covers a reporting period different from that for the entity's financial statements, the following information should be disclosed:

(a) The fact that the reporting period is not the same as that for the financial statements;

(b) Why there is a difference; and,

(c) If financial information is included in the service performance report, either

(i) The reporting period of the financial statements from which the information has been derived, along with information to facilitate access to those financial statements; or

(ii) The source of the financial information reported, if the information has not been derived from the entity's financial statements, along with information to facilitate access to that source.

66. When the reporting period for information on some services is different from the reporting period of the entity's service performance report the following information should be considered for disclosure:

(a) The services affected,

(b) The applicable reporting period(s), and

(c) An explanation for the difference(s).

Disclosures when Separate from the Financial Statements

67. Paragraphs 72–75 below address the location of service performance information in a GPFR. Where service performance information is presented separately from the GPFR that includes the financial statements, the following information should be presented:

(a) The name of the entity;

(b) Where the entity is a controlling entity, a description of the group of entities controlled by the reporting entity;

(c) Where the entity is a controlled entity, the identity of the controlling entity;

(d) The reporting date and the reporting period covered by the service performance information;

(e) The financial statements to which the service performance information relates and sufficient information necessary for users to locate the financial statements;

(f) The presentation currency, as defined in IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*; and,

(g) The level of rounding used.

68. Where service performance information is presented in the GPFR that includes the financial statements, the applicable IPSAS(s) establishes that this information should be presented.

Narrative Discussion and Analysis

69. The entity should disclose narrative discussion and analysis on its service performance information. Narrative discussion and analysis complements the displayed service performance information by enabling users to gain insight from the entity on:

(a) Aspects of service performance that the entity considers should be highlighted; and

(b) Factors that affected service performance achievements during the reporting period.

70. Narrative discussion and analysis should provide a concise overview of the entity's service performance that:

(a) Discusses the degree to which service performance objectives have been met;

(b) Provides balanced explanations of the information displayed, which cover both positive and negative aspects of the entity's service performance; and

(c) Facilitates users' assessments of the efficiency and effectiveness of the entity's service performance.

71. The Implementation Examples that accompany RPG 3 illustrate types of information that could be included in narrative discussion and analysis.

Location of Service Performance Information

72. An entity may present service performance information either:

(a) As part of a GPFR that includes the financial statements; or,

(b) In a separately issued GPFR.

73. The following factors should be considered when making this decision:

(a) The extent to which the service performance information needs to be reviewed within the context of information in the financial statements, including information on budget-actual comparisons;

(b) Whether the needs of users and the qualitative characteristics are enhanced if the service performance information is included in the same GPFR as the financial statements or in a separate GPFR;

(c) Application of the pervasive constraints on information, including whether the benefits of including the information in the same GPFR as the financial statements justify the additional costs (if any) involved; and,

(d) Jurisdiction-specific requirements which could specify either that service performance information should be located in the same GPFR as the financial statements or in a separate GPFR.

74. With respect to point (a) in paragraph 73 above, an important factor in this decision is likely to be whether the primary objective of providing the service performance information is:

(a) To inform assessments on resource allocation decisions for the provision of services, in which case there is likely to be value in associating the reporting of service performance information with the financial statements that are compared to budget allocations; or

(b) To inform assessments on policy or strategy decisions, in which case there is likely to be value in associating the reporting of service performance information with information on policies or strategy.

75. Where an entity chooses to present its service performance information in a separate GPFR from the financial statements the separate GPFR should be issued on a timely basis, which will usually be demonstrated through issuance at the same time as the financial statements or, if not at the same time, then very close to issuance of the financial statements.

Organization of Service Performance Information

76. The organization of service performance information within a GPFR should enable users to:

(a) Understand an entity's service performance, including its achievement of service performance objectives;

(b) Assess the entity's service efficiency and effectiveness; and

(c) Use the service performance information for the purposes of accountability and decision making.

77. The service performance information should be organized so that connections are clear between displayed information and:

(a) Disclosures on the basis of the displayed information, and

(b) Narrative discussion and analysis.

78. One way to organize service performance information is in a "statement of service performance", which involves organizing information into a tabular or statement form. A statement of service performance can support understandability and comparability when the performance indicators presented are quantitative measures or qualitative measures reported on multiple services.

79. Where service performance information is presented through narrative or case studies a tabular approach is unlikely to be appropriate. In some cases a mixture of case studies and one or more tables or statements will be appropriate.

80. Entities may use several levels of reporting in order to achieve a balance between being:

(a) Concise enough to be understandable; and,

(b) Providing sufficient detail with respect to multiple aspects related to each service performance objective.

81. The use of several levels of reporting allows the display of concise reporting at higher levels, and display or disclosure of more detailed coverage at lower levels, where service areas, for example, could be disaggregated into two or more individual services.

82. IPSAS 18, *Segment Reporting,* applies to entities' identification of segments. It describes service segments and identifies factors that should be considered when grouping services into segments for financial reporting purposes.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 3.

Background

Project Initiation, Consultation Paper and Decision to Develop Guidance

BC1. The IPSASB's project on reporting service performance information began with a review of national standards, guidance, and regulatory requirements for service performance reporting (or its equivalent) from selected national jurisdictions, the United Nations, and the Organization for Economic Co-operation and Development. No two jurisdictions have identical service performance reporting frameworks, but there are similarities in the service performance information that is reported. Consideration of these similarities and of commonly used terms provided the basis for the Consultation Paper (CP), Reporting Service Performance Information, issued in 2011. The CP proposed a principles based framework for reporting service performance information and a standard terminology.

Development of a Recommended Practice Guideline

BC2. In 2013 the IPSASB decided that information additional to that included in the financial statements should presently be addressed through development of a Recommended Practice Guideline (RPG). Therefore a draft RPG, ED 54, Reporting Service Performance Information, was developed for reporting service performance information. This RPG is based on the service performance reporting framework developed for the CP, revised for the IPSASB's decisions during its review of responses to the CP and its subsequent review of responses to ED 54. This RPG is underpinned by the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

Overall Approach of RPG—Guidance on Decisions and Minimum Characteristics

BC3. During development of this RPG, the IPSASB considered whether its overall approach should aim to:

(a) Establish minimum characteristics of service performance information, consistent with an RPG's role as providing guidelines on good practice and requirements; or

(b) Provide a framework that identifies decisions that preparers need to make and guidance on those decisions, consistent with the framework approach in the CP and an RPG's function as guidance.

BC4. Given the diversity of services and reporting contexts, the IPSASB decided that the RPG should not attempt to standardize service performance reporting, but focus on achievement of principles. At the same time, the core type of service performance information that should be presented. This approach was decided on the basis that guidelines are needed on what type of information should be presented and it is possible to identify broad categories of information—for example, information on service performance objectives—that are applicable to all entities that report service performance information.

BC5. In developing an RPG for reporting service performance information the IPSASB acknowledged the challenge in developing guidance that would be useful when applied to diverse services, diverse service performance objectives, and diverse accountability and decision-making contexts world-wide. Arguably service performance reporting quality depends in part on the extent to which it meets the particular information needs arising from the services provided and the context for their provision. For example, a report that tells the story of factors influencing progress toward critical targets may look quite different to a report that provides an account of services delivered for the resources provided. The IPSASB considered these matters and was of the view that it would be most helpful to develop an RPG that identifies the decisions that preparers will need to make, then provides guidance on how such decisions should be made, rather than an RPG that establishes minimum standards.

BC6. The IPSASB's view is that principles applicable to reporting service performance information provide useful guidance, without attempting to establish global requirements that may not be appropriate for the variety of different services and different service delivery contexts that exist globally. Service performance information is a developing area, which means that the RPG should not be overly prescriptive.

BC7. Some respondents to the ED were concerned about an apparent contradiction between RPG as pronouncements that do not establish requirements and paragraph 5 of the ED, which stated that compliance with the RPG involves compliance with all of its requirements. The IPSASB decided that the phrase "compliance with requirements" in this paragraph should be replaced with "compliance with principles". The basis for this is twofold. First, the RPG establishes principles which entities then use to guide their decisions on what service performance information they report. Second, while the paragraph still uses the idea of "compliance", the IPSASB considers that this is consistent with the RPG's role as a recommended guideline. The nature of an RPG as a guideline is established by the allowance for entities to not follow a particular RPG—in its entirety—without impacting negatively on the entity's IPSAS compliance. Preparers (or jurisdictions) may also choose to apply part of the RPG and, for example, progressively move towards full compliance, at which point compliance can be asserted. Nonetheless the specific content of an RPG involves a set of principles that establish good practice. An RPG may also, depending on the topic addressed, involve more flexibility of application than is the case for an IPSAS. This is the case for this RPG which includes options as to presentation and uses principles to guide preparers' decisions on what information to present.

Scope

BC8. When this RPG was issued, the IPSASB considered whether the RPG should apply to [Government Business Enterprises (GBEs)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSAS* in April 2016). While acknowledging that GBEs provide services and may report service performance information on those services the IPSASB decided that this RPG should apply to all public sector entities other than GBEs. When this RPG was issued, this was consistent with the Preface to International Public Sector Accounting Standards, which stated that the IPSASB developed accounting standards and other publications for use by public sector entities, other than GBEs. This exclusion from the scope should not be read as implying that the guidance could not be applied by GBEs or that there is any barrier to GBEs applying this guidance.

BC9. In reaching this conclusion the IPSASB noted that where a controlling entity reports service performance information according to the recommendations in this RPG it may provide information on services provided by one or more controlled GBEs. Although the GBEs' own reporting was not within the scope of this RPG, the IPSASB decided that the information reported by the controlling entity—about the GBEs' services—needed to follow the RPG's requirements, if the controlling entity was to assert compliance with the RPG.

BC10. The IPSASB considered whether this RPG should apply to entities in national jurisdictions which already have extensive service performance information reporting requirements for their public sector entities—requirements that may extend beyond the principles approach to information which is set out in the RPG. The IPSASB's view is that, in such circumstances, the entity will need to ensure that jurisdictional requirements are met. While the RPG does not set out detailed comprehensive and specific requirements, this does not represent an encouragement to report less than is already reported under national or other requirements, nor is this viewed as in conflict with more extensive reporting. Paragraphs 6–7 of the RPG addresses the relationship between the RPG and jurisdictional requirements for service performance information, explaining that the RPG does not preclude the presentation of additional information and more extensive jurisdictional requirements would apply in addition to the guidelines in the RPG. The IPSASB concluded that the RPG adequately addresses this issue and the RPG should be able to be applied to entities in jurisdictions where extensive service performance information reporting requirements already exist.

Definitions of Terms

BC11. In reaching its view on the need for standardized service performance terminology the IPSASB noted that although entities use some terminology consistently, many of those entities have not defined some or all of the terms they use. Moreover, the same terms sometimes have different meanings in different jurisdictions. On this basis, the IPSASB concluded that a standardized service performance terminology was necessary to support the understandability and comparability of service performance information reported by entities in GPFRs.

BC12. The IPSASB developed the defined terms in the RPG, by basing them, as far as possible, on terms already used in jurisdictions with a well thought through and explicit approach to, and extensive experience in, service performance reporting.

BC13. During the review of responses on the CP and the ED, and then during subsequent development of the RPG the IPSASB revised the definition of an effectiveness indicator. The CP definition was: “Effectiveness indicators are measures of the relationship between outputs and outcomes.” This implies that the relationship between outputs and outcomes is relatively simple to measure. After further consideration the IPSASB considered that the relationship between outputs and outcomes is likely, in many situations, to be more complex than the simple relationship underpinning the original definition. Furthermore, the IPSASB considered that effectiveness is better understood to be the degree to which an entity is successful in achieving its service performance objectives. On this basis the IPSASB decided that effectiveness indicators show the extent to which an entity has achieved its services performance objectives

BC14. During development of the CP and ED 54, and the subsequent review of responses to ED 54, the IPSASB considered whether to include “economy indicators” in the RPG’s set of defined terms. IPSASB members decided to exclude economy indicators because the term is both confusing and unnecessary given other terms defined in the RPG. “Economy indicators” do not represent something additional to the ideas conveyed by either inputs or efficiency, for which the RPG establishes clear definitions. The IPSASB noted that the RPG’s approach to selection of service performance information allows jurisdictions to assess “economy”, whatever the meaning that a particular national jurisdiction gives that word. For example, the RPG supports the presentation of information on costs, on other inputs, and on efficiency.

BC15. Economy is a commonly used term in the context of service performance reporting. However different jurisdictions have different meanings for economy. For some jurisdictions economy means lower costs for service delivery without reference to impact on quantity and/or quality of services delivered. Other jurisdictions consider that this first view is not really economy and that using “economy” to describe situations where costs are reduced but service quantity and/or quality is negatively impacted could be misleading to users of GPFRs. A second view of economy is that it is only achieved if service delivery is maintained or enhanced, when costs or other inputs are reduced. This second view of economy fits the definition of “efficiency” in the RPG. Indeed, there is a third group of national jurisdictions that does not use the term “economy” on the basis that the term can be confusing and it overlaps with efficiency. Therefore the RPG does not define “economy indicators” and does not use the term “economy”.

Reporting Entity

BC16. Service performance information should support the users of the GPFRs as they hold the entity accountable for its service provision and use of resources and make decisions affecting that entity. On that basis a majority of the IPSASB considered that service performance information should be prepared for the same reporting entity as for the financial statements. To be consistent with coverage in RPG 1 and 2 (see paragraph 14 of RPG 1 and paragraph 4 of RPG 2) the wording in RPG 3 focuses on “reporting boundary” rather than reporting entity, In reaching this conclusion the IPSASB also noted that the RPG’s accountability and decision making focus is not designed to apply to supply chains, networks or other combinations of individual entities that may be able to influence each other but do not have the ability to control.

BC17. Several respondents to the ED suggested that the RPG should also provide guidance for reporting on programs or policies that involve a group of entities that are not under common control, that is, "cross-boundary" reporting. The IPSASB acknowledged that there is a trade-off between service performance reporting that applies the same reporting entity boundary as for the financial statements and flexible boundaries that provide scope for cross-boundary reporting. A focus on the same reporting entity as for the financial statements has the benefit of following lines of control and supporting organization-focused accountability, while also facilitating both collection of service performance information and the integration of such information with financial information in the entity's financial statements. However there are cases where no single entity is accountable for a program or policy and requiring cross-boundary reporting, aligned with the program or policy, would provide information that better explains service performance related to that program or policy. The IPSASB considered expanding the RPG's scope to also include guidance for cross-boundary reporting on "programs" or "sets of activities that contribute to the same outcome(s)". The IPSASB decided that the RPG should remain focused on reporting by the same entity as that for the financial statements. This does not prevent national jurisdictions from adapting the RPG's principles and guidance for application to cross-boundary reporting.

BC18. The IPSASB considered concerns expressed by respondents to the CP and the ED over controlling entities being required to report all services provided by their controlled entities. That could have the result that information becomes too detailed and lengthy to meet the qualitative characteristics and support users' assessments for accountability and decision making. The IPSASB decided to include further explanation in the RPG to address this concern. On this basis the RPG states that controlling entities should report against their own service performance objectives rather than attempt to aggregate all those services provided by controlled entities.

Annual Reporting and Reporting Period

BC19. The IPSASB considered whether service performance information should be reported annually, when service performance objectives, whether expressed in outcomes, outputs or inputs, may require periods longer than one year to achieve. The majority of IPSASB members considered that service performance information should be reported annually because this is important to ensure that users' have the information they need for the purposes of accountability and decision-making. To address the existence of multi-year service performance objectives the IPSASB decided that the RPG could encourage entities to disclose information on their progress towards multi-year service performance objectives. The IPSASB noted that responses to the ED indicated generally strong support for annual reporting. The IPSASB confirmed that service performance information should be presented annually and use the same reporting period as that for the financial statements, unless users' needs require a different period.

Scope to Report More Frequently

BC20. Some respondents to the ED were concerned that it did not allow entities to report more frequently than annually. The IPSASB agreed with respondents who argued in favor of scope for more frequent reporting, noting that this is likely to increase transparency and accountability. As one respondent stated, more frequent reporting also can encourage "management dialogue between all those involved in the evaluated public policy mission and improves the management process by increasing the accountability of the public manager." The IPSASB decided to use the phrase "should be reported at least annually", which allows for more frequent reporting and is the same phrase as that used in IPSAS 1, Presentation of Financial Statements, to address reporting frequency.

Reporting Against Multi-Year Performance Objectives

BC21. The IPSASB considered concerns raised by some respondent to the ED that annual reporting could have negative consequences for outcome reporting, including the possibility that annual reporting could have the unintended effect of reducing the extent to which entities report outcomes. The IPSASB noted that for some outcomes annual measurement is very expensive and measurable change showing progress towards outcome achievement will not emerge for two or more years. One respondent noted that annual reporting in such cases

may even be misleading. This problem is not restricted to service performance objectives focused on outcomes, but can also occur for outputs and input reporting. To address this concern the RPG includes explicit coverage on use of proxy measures and provides scope for entities to report outputs or inputs as indicative of progress towards achievement of outcomes or other types of multi-year service performance objectives.

Service Performance Information Issued at Same Time as the Financial Statements

BC22. The IPSASB considered whether the RPG should state that service performance information should be issued at the same time as the financial statements. The IPSASB noted that issuance at the same time as the financial statement supports timeliness, but may be very difficult for some entities to achieve. The IPSASB decided that, while acknowledging that it is desirable for service performance to be reported at the same time as the financial statements, the RPG should not state that this is necessary.

Controlling Entity and Controlled Entities with a Different Reporting Period

BC23. The IPSASB considered situations in which a controlling entity includes information on services that are provided by controlled entities with a different reporting period from that of the controlling entity. Ideally all the service performance information reported should cover the same reporting period. However there are situations where the benefits of aligning the information with the controlling entity's reporting period do not outweigh the costs involved. For example, some public sector entities provide service performance reports to donors who require a different reporting period from that for the entities' financial statements. The additional costs of preparing service performance reports for each reporting period (donors and financial statements) may not justify the benefits. On this basis the IPSASB decided that the RPG should acknowledge the possibility that some of the service performance information reported may be for a different reporting period and address this through additional disclosures.

Two Approaches for Reporting Service Performance Information

BC24. In developing this RPG the IPSASB acknowledged that there are differing approaches to reporting service performance information, including approaches that are more output-focused and approaches that are more outcome-focused. A more outputs-focused approach reports information about the services provided. This type of information is oriented towards resource providers and aims primarily to report on the services received for resources provided and whether resources have been used efficiently, although there is scope to widen the focus to include information about outcomes. A more outcome-focused approach tells a performance story, which generally reports on the achievement of outcomes, although there is scope to relate this performance story back to the costs of services. The information reported explains how well the entity is doing in terms of achieving its objectives, where those objectives are described in terms of outcomes.

BC25. The IPSASB considered whether the RPG should include guidance specifically tailored for each approach, but decided against this on the basis that the RPG's focus on achievement of objectives can be applied to either approach. Allowing entities to tailor their reporting to their objectives means that entities or jurisdictions do not need to fit their individual approach into either an output-focused approach or an outcome-focused approach in order to apply the RPG. This means that the RPG's content will be useful to a variety of entities applying different approaches. Entities' service performance objectives may even relate to inputs, when their reporting of service performance information is at an early stage. However, the ideal to which entities should, over time, aspire is the reporting of service performance information that reports comprehensively on both outcomes and outputs, along with information that allows users to assess the efficiency and effectiveness of both. This is consistent with the IPSASB's view, discussed below, that the performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Principles for Presentation of Service Performance Information

BC26. The RPG sets out principles applicable to the presentation of service performance information, which includes principles applicable to decisions on information selection, location and organization. The RPG identifies factors that should be considered when making presentation decisions and generally proposes information that should be considered for presentation, in light of those principles, rather than prescribing an extensive list of information requirements. This principles-based approach is consistent with the IPSASB's decisions on the RPG's overall approach, developed during the consultation phase and further considered during both development of the ED and the IPSASB's review of responses to the ED. Although the RPG identifies the type of information that all entities should present, it does not prescribe an extensive set of information. The IPSASB has maintained the principles based approach proposed in the CP and then exposed in the ED on the basis that the principles-based approach:

(a) Allows entities the flexibility they need to report service performance information that is relevant an appropriate to their service performance objectives and will meet the needs of users of the information;

(b) Reduces the risk of "disclosure overload", which undermines the extent to which a report on service performance meets the needs of users and does not achieve either the qualitative characteristics or provide benefits in excess of the costs; and

(c) Requires entities to apply principles that will result in the presentation of the service performance information that users need for the purpose of accountability and decision-making.

BC27. The IPSASB determined that the key principles for reporting service performance information should be based on the users' needs that such information should meet, as established through consultation and with reference to the experience of different jurisdictions. The principles are consistent with the Conceptual Framework and have involved application of the Conceptual Framework to the reporting of service performance information.

Presentation of Service Performance Information

Consultation Paper's Dimensions and Components of Service Performance Information

BC28. The CP explained that there are four dimensions of service performance on which information should be presented. The four dimensions—why, what, how and when—relate to an entity's:

(a) Service performance objectives;

(b) Performance indicators;

(c) Comparison between planned and actual performance; and

(d) Time series that allow users to assess either changes in service provision over time or progress towards a multi-year goal.

BC29. The RPG's coverage of information selection addresses these four dimensions when it establishes that an entity should report:

(a) Information on an entity's service performance objectives, including the need or demand for these objectives to be achieved (the "why" dimension);

(b) Performance indicators to show achievements with respect to service performance objectives (the "what" dimension);

(c) Comparisons of actual performance to planned (or targeted) results, including information on the factors that influence results (the "how" dimension); and

(d) Annually on service performance information presenting actual information for the current and the previous reporting period (the "when" dimension).

BC30. The CP also established components of service performance information, which relate to these four dimensions. The RPG's coverage of information selection addresses the CP's components, which are:

(a) Narrative discussion of the achievement of objectives;

(b) Information on the "parameters" of the service performance information reported (termed "basis" in the RPG); and

(c) Information on the entity's service performance objectives, and its achievement of those service performance objectives.

Principles Rather than Specific Requirements

BC31. The IPSASB acknowledged that entities' presentation of service performance information will vary, depending on:

(a) The services that the entity provides;

(b) The nature of the entity; and

(c) The regulatory environment or other context within which the entity operates.

BC32. Because services provided, service performance objectives, and applicable service performance indicators depend on these different factors, the IPSASB decided that the RPG should not identify specific performance indicators that must be presented. Instead, it should identify broad types of information that should be reported and provide guidance on achievement of the qualitative characteristics when selecting service performance information.

BC33. The RPG identifies different types of performance indicators that could be presented, but does not require that particular performance indicators be presented. While efficiency and effectiveness indicators directly address those aspects of performance, the RPG's objective of providing information for users to assess efficiency and effectiveness does not mean that those two types of performance indicators must be presented. For example, efficiency can be calculated using information about outputs and their cost. Effectiveness can be assessed using information on service performance objectives and results achieved against those service performance objectives.

Information that Conveys a Coherent, Integrated View of the Entity's Service Performance

BC34. The IPSASB considered that the principles focused approach was appropriate because it allows entities at an early stage of developing service performance reporting to meet the RPG's guidelines and report service performance information consistent with their existing reporting capabilities. Nonetheless, the IPSASB's view is that good quality service performance information needs to be reported so that users can assess an entity's service performance, including both its achievement of objectives and the extent to which it has used resources efficiently and effectively to deliver outputs and achieve outcomes. Ideally the set of performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Selection of Performance Indicators

BC35. The IPSASB considered whether the RPG should require entities to report all five types of performance indicators—inputs, outputs, outcomes, efficiency and effectiveness—for the services that they provide. This would result in comprehensive coverage of an entity's service performance, but it might not reflect an entity's actual service performance focus. In practice it is likely that an entity's service performance objectives will change over time. For example, service performance objectives may initially focus on inputs, then outputs and efficiency, and then outcomes. If an entity is able to adjust its reporting of performance indicators to align them with its service performance objectives, then the information presented is more likely to be useful to users and meet the

qualitative characteristics, while supporting achievement of the financial reporting objectives. On that basis the IPSASB decided that the RPG should not require reporting of all five types of indicators but should instead provide guidance on how an entity should choose the types of performance indicators that it reports.

BC36. The IPSASB also considered whether the RPG should require entities to report outcome indicators. Outcome information is important to users, because it focuses on the ultimate reason for service provision, which is the impact that services have on the community. However outcome information can be very difficult for entities to provide, particularly when they are at an early stage in developing their services performance reporting or in situations where the reporting entity is one of many entities contributing to the same outcome(s). On that basis the IPSASB decided that the RPG should encourage but not require entities to present information on outcomes.

Total Costs of Services

BC37. The IPSASB considered providing guidelines on what costs should be included in the total costs of services. Costing of services involves management accounting considerations. The meaning of total costs of services may be jurisdiction specific and/or entity specific. Entities may report total costs of services that are equivalent to the total expense they present in their financial statements. Alternatively entities may exclude some costs, for example overhead, or some expense types, for example borrowing costs, with the result that the total costs of services differs from the total expenses presented in the financial statements. On this basis the IPSASB decided not to stipulate what is meant by the total costs of services.

Location of Service Performance Information

BC38. The IPSASB considered whether service performance information should be located in the same report as the financial statements or in a separate GPFR. It noted that while many national jurisdictions treat service performance information as different in nature and therefore preferably kept separate from information provided with the financial statements, there are also jurisdictions that integrate service performance information into the same report as the financial statements, treating the two sets of information as complimentary. There are benefits to both approaches. In order to allow for jurisdictional differences the IPSASB decided that the RPG should allow entities to report service performance information either in the same report as the financial statements or in a separate report.

Organization of Service Performance Information

BC39. The IPSASB considered whether the RPG should:

(a) Propose one way that service performance information should be organized, with the main method considered being a tabular form, described as a “statement of service performance”; or

(b) Provide principles that should be applied to guide jurisdictions and/or preparers when they choose between different possible information organization approaches.

BC40. The IPSASB noted that in some jurisdictions there are requirements that service performance information be reported in a “statement of service performance”. In other jurisdictions preparers apply principles to identify how best to organize information, with reference to the particular types of services, desired outcomes, or planned achievements on which information needs to be reported. Organizing information into a tabular or statement form can support understandability and comparability when numerical or “summary descriptive” performance indicators (e.g. “satisfactory or unsatisfactory”) are reported on multiple services. But service achievements could be misrepresented or poorly described if a statement format is the only form of presentation permitted.

BC41. The IPSASB decided that the RPG should focus on principles applicable to this decision. By focusing on principles rather than stipulating a standard reporting structure, the RPG allows the choice of information organization to be tailored to:

(a) The nature of the services on which performance information is presented;

(b) The needs of users, so that it supports achievement of the objectives and qualitative characteristics of financial reporting; and

(c) The regulatory context, including the regulatory environment in which the entity operates.

BC42. Although this could result in less standardization, and reduced comparability between entities, service performance information differs from financial statements information due to the diversity of services reported. Unless the performance indicators themselves are comparable, a single presentation format will not provide the benefits of inter-entity comparability, but will sacrifice the benefits to be gained from allowing the organization of information to be tailored to an entity's service performance objectives and services provided so that it meets the needs of users.

Revision of RPG 3 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC43. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about the applicability of IPSAS to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Additional Guidance for RPG 3 as a result of *Reporting Sustainability Program Information–Amendments to RPG 1 and 3: Additional Non-Authoritative*

BC44. In March 2022, the IPSASB decided to address an urgent stakeholder concern by adding the limited scope project, *Reporting Sustainability Program Information*. The project responds to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPG) to reporting sustainability program information in general purpose financial reports.

BC45. To clearly communicate the applicability of RPG 3, the IPSASB decided to add non-authoritative guidance to RPG 3 to demonstrate how the authoritative guidance should be applied when reporting on sustainability program information. The IPSASB decided to highlight that the principles and guidance in RPG 3 are relevant for an entity to report on the impact of sustainability programs, to enable transparency and accountability of the program's impact against its objectives.

BC46. The IPSASB decided to add IG1.- IG4. to communicate:

(a) That RPG 3 applies to reporting information related to sustainability programs; and

(b) How RPG 3 can be applied to individual sustainability programs.

BC47. The IPSASB decided to add IE4.-IE8. to illustrate how the guidance in RPG 3 applies to sustainability programs, including:

(a) A program financed by a green bond;

(b) A program financed by a carbon tax;

(c) An investment in infrastructure to mitigate the impacts of climate change; and

(d) A tax expenditure for sustainability investments.

BC48. The IPSASB agreed that IPSAS should be applied to capture the impact of an entity's sustainability-related transactions in general purpose financial statements. RPG 3 provides guidance on disclosures in general purpose financial reports, including the impact of individual programs in achieving its objectives.

BC49. The IPSASB noted that normally illustrative examples developed by the IPSASB show the application of different concepts. However, IE4. - IE8. illustrate similar RPG 3 concepts applied to four different sustainability programs to help communicate how the guidance can be applied to various types of programs.

BC50. ED 83, *Reporting Sustainability Program Information* received strong support from constituents on its proposed implementation guidance and additional illustrative examples. A few constituents suggested editorial changes to the illustrative examples. Some constituents proposed changes beyond the limited scope of ED 83, such as developing a definition of 'sustainability' or 'sustainability program information'. This project introduced amendments to highlight the applicability of existing concepts and principles in RPG 3 that reporting entities can apply when reporting on sustainability program information. The IPSASB decided that recommendations on the broader scope of sustainability reporting in the public sector were beyond the scope of this project.

Implementation Guidance

This guidance accompanies, but is not part of, RPG 3, Reporting Service Performance Information.

Does RPG 3 apply to reporting information related to sustainability programs?

IG1. Yes, RPG 3 provides principles to apply when reporting on an entity's service performance by considering its objectives, and measuring performance against relevant indicators (inputs, outputs, outcomes, efficiency, or effectiveness).

IG2. The RPG 3 principles are applicable for entities that establish service performance objectives related to sustainability programs and can measure performance against relevant overall indicators set by the entity or specific program metrics.

How does RPG 3 apply to an individual sustainability program?

IG3. Decision makers may want to evaluate the governance, strategy, risks and performance associated with sustainability programs as part of delivering the entity's service performance objectives. RPG 3 reporting supports transparency in these key areas which are important both for ensuring accountability and for providing useful information for decision-making purposes.

IG4. The illustrative examples (IE4.–IE8.) in RPG 3 demonstrate the application of the principles to four different types of sustainability programs. This includes how an entity identifies service performance objectives of its respective programs, and how they can be expressed using performance indicators related to inputs, outputs, outcomes, efficiency, or effectiveness, or through a combination of two or more such indicators.

Illustrative Examples

These examples accompany, but are not part of, RPG 3.

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual situations, all facts and circumstances of a particular situation would need to be evaluated when applying RPG 3. Where a cost is identified the amount is express in “currency units” (CU).

IE2. The first part of this appendix lists examples of terms defined in the RPG. It is not intended to be an exhaustive list of examples for all defined terms. The examples illustrate the meaning of different terms usually through reference to an entity that provides health services. The examples focus on one service— the provision of vaccinations to infants in order to prevent measles. The entity uses a range of inputs to produce its outputs (measles vaccinations). Those outputs are then expected to cause (directly or indirectly) the desired outcome(s).

IE3. The second part of this appendix provides an illustrative list of information that could be included in an entity’s service performance narrative analysis and discussion.

Part 1: Examples of Defined Terms

- **Service Performance Objectives (SPO):**

  RPG 3 states that service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. The following are examples of service performance objectives that have these different forms of expression. The first example is of a service performance objective that has a focus on inputs, the second has a focus on outputs, the third has a focus on outcomes, and then the last example has a focus on efficiency.

  - To apply 1,200 full-time equivalent days of medical staff time to vaccination services.
  - To provide 20,000 vaccinations to infants.
  - To reduce the percentage of infants who contract measles annually from 65% to 2% within five years i.e. by the end 20XX.
  - To reduce the total cost per vaccination from CU5 to CU4.

- **Input:** The number of full-time equivalent staff days used to provide vaccinations against measles.
- **Outputs:** The number of infants vaccinated against measles.
- **Outcome:** A reduction in the number of infants that contract measles. (The reduction could be expressed in absolute terms (5,000 fewer incidents of measles) or as a percentage reduction (a 35% percentage reduction in infants contracting measles).

  RPG 3 states that outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity’s services. They could also be impacts on others that are not recipients of the entity’s services but who benefit indirectly from those services. RPG 3 also states that factors beyond the entity’s control may intervene to either hinder or facilitate the entity’s achievement of outcomes. The first example below illustrates an outcome that affects a particular group within society. The second and third examples illustrate a direct impact on service recipients and an indirect impact on non-recipients. The fourth example illustrates a situation where factors beyond the entity’s control intervenes to facilitate the entity’s achievement of an outcome.

  - A 35% reduction in the incidence of measles for infants within the lowest socio-economic decile.
  - A reduction in the number of incidents of measles experienced by recipients of measles vaccinations provided by the entity is an example of a direct impact on the recipients of the entity’s services.

- Children going to the same schools as those that vaccinated children attend but who have not received a vaccination will also be impacted indirectly by the entity's vaccination services, because their risk of contracting measles is reduced.
- An outbreak of measles in a nearby region leads to extensive media coverage of measles related health risks and an increased vaccination rate in that nearby region covered by another health services provider. These factors facilitate achievement of the entity's outcome to reduce the incidence of measles in its own region. The factors evident in the other region (measles outbreak, media coverage and increased vaccination rate) are outside of the control of the entity.

- **Efficiency:**

RPG 3 states that efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes. The two examples in the first bullet point below illustrate efficiency expressed as the relationship between inputs and outputs. The example in the second bullet point illustrates efficiency expressed in terms of inputs and outcomes.

- "Cost per infant vaccinated" is an example of an efficiency indicator that relates outputs (vaccinations) to an input (cost). Efficiency may also be expressed in terms of other inputs such as, for example, number of staff or staff time. For example, 1,000 vaccinations annually per qualified medical staff member.
- "Cost per reduction in number of infants contracting measles" is an example of an efficiency indicator that relates an outcome (reduction in number of infants contracting measles) to an input (cost).

- **Effectiveness:**

RPG 3 states that effectiveness is the relationship between actual results and service performance objectives. Therefore an assessment of effectiveness depends on the type of service performance objectives that the entity has presented. The three examples below illustrate effectiveness for different service performance objectives. The first example illustrates effectiveness where the service performance objective was expressed in terms of inputs, the second in terms of outputs, and the third in terms of an outcome.

- The service performance objective was to dedicate 20,000 hours of medical staff time to provision of measles vaccinations during the year ended 31 March 20XX. The actual result achieved was 18,000 hours of medical staff time. Therefore the entity effectiveness in this area was 90%.
- The service performance objective was to provide 100,000 measles vaccinations to infants during the year ended 31 March 20XX. The actual result achieved was 99,000 vaccinations. Therefore the entity's effectiveness in this area was 99%.
- The service performance objective was to reduce the number of infants that contract measles by 3,000 compared to the previous year. The actual result achieved was a 3,000 reduction in infants contracting measles. Therefore the entity's effectiveness in this area was 100%.

- **Performance indicator—Qualitative Description:**

RPG 3 states that performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives. The example below illustrates a performance indicator expressed as a qualitative description:

A government department (the Ministry) responsible for supporting the government's relationships with other nations, including trade relationships, uses the following qualitative description as one of its performance indicators:

Engagement with Latin America during this year is expected to include several successful ministerial-led business missions to national governments and ministerial engagement in two regional forums. The Ministry will provide

host and other support for ministerial level visits from several countries in the region, and undertake bilateral foreign policy consultations. Consultations will include advocacy of free trade agreements. The diplomatic network in several Latin America countries will be expanded through additional consulates and honorary consuls.

Part 2: Narrative Discussion and Analysis—Types of Information

The following list provides examples of the different types of information that could be included in narrative discussion and analysis to help users' assessment of an entity's service performance:

(a) Particular service performance achievements, deficiencies and issues.

(b) Identification and discussion of the factors that may have influenced achievement (or non-achievement) of service performance objectives.

(c) Effectiveness indicators.

(d) Discussions of differences between planned and actual achievements.

(e) Comparisons of indicators:

  (i) Over time;

  (ii) To milestones; and/or,

  (iii) Between actual and planned results.

(f) Reasons for change(s), if the service performance objectives or performance indicators presented have changed compared to those presented for the previous year.

(g) Where an entity has multi-year service performance objectives, narrative about progress towards their achievement.

(h) Where outcomes are reported, information on the extent to which outcomes can be attributed to the entity's activities.

(i) Significant lessons learned during the reporting period with respect to the entity's service performance including, where relevant, plans on ways to address issues affecting service performance and areas that require further evaluation.

(j) Identification and discussion of the risks associated with the delivery of services and, if risk assessments for services have been carried out, information on how such risk trade-off decisions are informed and managed.

(k) Identification and discussion of the consequences—intended and unintended, direct and indirect—of the services provided.

If an entity provides a discussion of differences between planned and actual achievements this discussion could include, for example:

(a) Identification of the size of the variances; and

(b) Factors contributing to the variances. (For example, external factors, efficiencies or inefficiencies in internal processes, resource availability, or government service delivery decisions.)

The achievement of outcomes is often influenced by factors outside of the entity's control. If an entity provides narrative discussion and analysis on outcomes the disclosures should be sufficient to ensure that users do not overestimate the entity's role with respect to either improving or worsening outcomes. Where outcome information is displayed, information on the following may be useful for users:

(a) The extent to which the outcomes can be attributed to the entity's activities, and

(b) Other factors that may have influenced the outcomes.

The delivery of public services often follows a risk assessment, involving clear parameters around tolerance of different types of risks, including the risk of false positives and false negatives with respect to intervention decisions. Information on how an entity assesses risks as part of service delivery can support users' understanding of an entity's service performance.

Examples Related to Reporting Sustainability Program Information

IE4. A general overview of how to apply the RPG 3 principles when reporting service performance information is provided in IE1.– IE3. Specific examples of how to report service performance information related to sustainability programs are provided in IE5.– IE8. These examples are not exhaustive and are meant to provide entities with a simplified fact pattern for illustrative purposes on how to report on service performance objectives of sustainability programs. An entity needs to evaluate all relevant facts and circumstances of its specific programs when applying the RPG 3 guidance.

Example 1—Program Financed by a Green Bond

IE5. Green bonds may be used by entities to raise funds for investment in sustainability programs, for example, environmental or climate change mitigation programs. Issuers of such green bonds may identify specific metrics or targets to provide investors with information on the performance of the program in achieving those targets. Below is an example of a program financed by a green bond, The example shows how to apply RPG 3 for reporting on the program.

Green Bond Details and Objectives:

- On January 1, 20x0 Entity A issued a green bond to fund a reforestation program with the goal of planting 100 million trees by the end of the year at a cost of CU4 per tree.
- The reforestation program's target outcome is the absorption of 997,900 tons of CO2 per year ((100 million trees x 22 pounds of CO2 absorbed per tree) divided by 2,204.63 pounds in tons) for the first 20 years.
- At the end of 20x0, forestry staff had planted 85 million trees and determined that the CO2 absorbed by the reforestation program in year 1 was 578,328 tons of CO2 ((85 million trees x 15 pounds of CO2 absorbed per tree) divided by 2,204.63 pounds in tons).
- The actual cost to plant each tree in the reforestation program was CU4.1 (CU348.5 million/85 million trees).

Performance Indicators:

- Inputs: The cost to plant each tree.
- Outputs: The number of trees planted.
- Outcome: Total CO2 absorbed.
- Efficiency:
  - The cost per tree planted was CU4.1, i.e., higher than the expected cost of CU4. The total number of trees planted fell short by 15 million trees (100 million less 85 million). The cost per ton of CO2 absorbed was CU 603 (CU348.5 million/578,328 CO2 tons), while the planned cost per ton of CO2 was CU 401 (CU 400 million/997,900 CO2 tons). The higher cost of CO2 tons per CU spent shows a lower absorption of CO2, which could be attributed to a number of factors, including the gradual process of planting trees, a lower number of trees planted by the program than planned, and a lower survival rate of planted trees.
- Effectiveness:

- Input: 102.5% (the actual cost to plant a tree over the target cost to plant a tree – CU4.1/CU4) because the actual cost to plant the trees (CU348.5 million) was less than the planned cost (CU400 million) and the actual number of trees planted (85 million) fell short of the target number of trees to be planted (100 million).
- Output: 85% (the actual number of trees planted over the target number of trees to be planted – 85 million/100 million) because fewer trees were planted than planned.
- Outcome: 58% (the absorption of CO2 at the end of year 1 over the target absorption of CO2 in year 1 – 578,328 tons of CO2/997,900 tons of CO2) because less carbon was absorbed than planned.

Example 2—Program Financed by a Carbon Tax

IE6. Carbon taxes may be used by entities to generate revenue to fund investment in sustainability programs, including those to fund investment in climate change mitigation. Carbon tax programs often have specific metrics or targets. This information can be used by the entity to report on the performance against the program objectives. Below is an example of a program financed by a carbon tax. The example shows how to apply RPG 3 for reporting on the program.

Carbon Tax Details and Objectives:

- On January 1, 20x1 Jurisdiction B implements a carbon tax to generate revenue to fund the installation of 10,000 electrical vehicle (EV) charging stations over the next 15 years along their highways.
- The objective of Jurisdiction B's program is to incentivize the development of the zero-emission vehicles (ZEV) market so that ZEVs make up 100% of the 460,000 new light-duty vehicles sold per year, within 15 years.
- The program's target for year 1, which starts in 20x2, is to install 600 EV charging stations (expected to cost CU28,500 to install each charging station) and for ZEV sales to comprise 26% of new light-duty sales in Jurisdiction B (119,600).
- At the end of 20x2, Jurisdiction B invested CU13.11 million to install 460 EV charging stations and 18% (85,000/460,000) of all new light-duty vehicle sales were ZEV.

Performance Indicators:

- Input: The cost to install each EV charging station.
- Output: The number of EV charging stations installed.
- Outcome: ZEV market share of the new light-duty vehicles market.
- Efficiency:
  - The cost per EV charging station installed was CU28,500 (CU13.11 million/460 EV charging stations), achieving the 20x2 target cost per station. However, the program only resulted in 460 EV charging station installations falling short by 140 (the plan was to complete 600 EV charging stations). The cost incurred by Jurisdiction B to incentivize the purchase of new light-duty ZEV in 20x2 was CU154 per ZEV (CU13.11 million/85,000 new light-duty ZEV). The program's planned cost was CU143 per additional new light-duty ZEV sold, however, this expectation was based on capturing 26% of the market, instead of 18% captured in 20x2.
- Effectiveness:
  - Input: 100% (the actual cost to install an EV charging station over the target cost to install an EV charging station – CU28,500/CU28,500) because the cost planned was achieved.

- Output: 77% (the actual number of EV charging stations installed over the target number of planned EV charging station installations – 460/600) because fewer EV charging stations were installed than planned.
- Outcome: 71% (the actual number of new light-duty ZEV sold over the target (85,000/119,600) because the market share achieved of 18% was lower than the 26% targeted.

Example 3—Investment in Infrastructure to Mitigate the Impacts of Climate Change

IE7. Investments in infrastructure can be used by entities to help restore the natural environment and mitigate the impact of climate change. Such investments often identify specific metrics or targets the investments are intended to achieve, including those related to service delivery. This information can be used by the entity to report on the performance of the program in achieving the program objectives. Below is an example of an investment in green infrastructure (i.e., rain garden) financed by environmental penalties collected to mitigate the impacts of climate change. The example shows how to apply RPG 3 when reporting on the program.

Investment in Infrastructure Details and Objectives:

- Community C utilizes funds collected from environmental penalties to provide funding for programs helping restore the environment, through 'green infrastructure' programs, such as installing rain gardens to reduce the risk of flooding and help communities adapt to climate change.
- In 20x1, Community C made CU250,000 available for the installation of rain gardens in residential homes and small businesses, with an average cost of CU5,556 each (CU250,000/45 rain gardens).
- A water management consultant report states that the plan to install 45 rain gardens is estimated to reduce instances of flooding by 60% (30 fewer flooding instances).
- Rain levels between 20x0 and 20x1 were consistent, 50 flooding instances were noted in 20x0, and after issuing funding of CU150,000 for 25 rain gardens in 20x1 there were 17 fewer flooding instances (34% reduction).

Performance Indicators:

- Input: Funding collected from environmental penalties and available for rain gardens.
- Output: The number of rain gardens funded by Community C.
- Outcome: Reduction of residential and small business flooding instances.
- Efficiency:
  - The cost per rain garden was CU6,000 (CU150,000/25 rain gardens), CU444 over the target cost. There were only 17 fewer flooding instances than the estimated 30, which can be attributed to the lower number of rain gardens funded by the program (45 rain gardens were estimated to be funded, but only 25 were funded and completed in 20x1). The cost per reduction in flooding instances was CU490 higher per flooding instance, as the planned cost was CU8,333 (CU250,000/30 reductions of flooding instances) and the actual cost was CU8,823 (CU150,000/17 reductions of flooding instances).
- Effectiveness:
  - Input: 60% (the actual funding provided for rain gardens over the target funding available – CU150,000/CU250,000) because less funding was provided than was available.
  - Output: 56% (the actual number of rain gardens funded over the target number of rain gardens planned – 25/45) because fewer rain gardens were funded than planned.

- Outcome: 57% (the actual reduction of flooding instances over the target reduction of flooding instances – 17/30) because fewer flooding instances were prevented than planned.

Example 4—Tax Expenditures for Sustainability Investments

IE8. Tax expenditures[1] can be used to incentivize private investment to improve energy efficiency and reduce energy consumption. Such programs encourage investments and often identify specific metrics or targets the investments are intended to achieve. This information can be used by the entity to report on the program performance in achieving its objectives. Below is an example of a tax expenditure program to encourage energy efficiency improvements through conservation that sets out how to apply RPG 3 when reporting on the program.

Tax Expenditure Details and Objectives:

- In 20x6, Country A introduced a tax credit to incentivize energy-efficient renovations of CU525 million (approximately 80,000 renovations) to decrease energy consumption, specifically natural gas, by 15% in 20x7.
- In 20x7, an income tax credit of CU300 million was given by Country A on housing energy efficiency expenditures.
- The tax credit for energy transition triggered about 60,000 additional eligible energy-efficient renovations and accounted for a reduction of 7% (94,007,117 MMcf[2]) in the natural gas consumption in residential properties in 20x7 (the 20x7 total natural gas consumption was 1,342,958,820 MMcf).

Performance Indicators:

- Input: The total amount of tax credits provided
- Output: The number of eligible energy-efficient renovations completed.
- Outcome: Reduction in energy consumption.
- Efficiency:
  - The average tax expenditure provided for each energy-efficient renovation was CU5,000, resulting in a lower tax expenditure than planned of CU6,563 per renovation (CU525 million/80,000 renovations). The actual cost per unit of energy conservation was CU3.191 per MMcf (CU300 million/94,007,117 MMcf), which was higher than planned at 2.606 per MMcf (CU525 million/201,443,823 MMcf). This could be attributed to fewer actual renovations (60,000) than planned (80,000) and less energy savings per renovation – 1,566.78 MMcf per renovation (94,007,117.40 MMcf/60,000 renovations) instead of 2,518.05 MMcf per renovation (201,443,823 MMcf/80,000 renovations).
- Effectiveness:
  - Input: 57% (the actual tax credit issued for eligible energy-efficient renovations over the target announced – CU300 million/CU525 million) because the tax expenditures issued were below the target.
  - Output: 75% (the actual number of eligible energy-efficient renovations over the target – 60,000/80,000) because there were fewer energy-efficient renovations than planned.
  - Outcome: 47% (the actual natural gas consumption reduction over the target – 7%/15%) because the reduction in natural gas consumption achieved was lower than planned.

[1] This term is defined in the Glossary of Defined Terms.

[2] One million cubic feet of natural gas.

CASH BASIS IPSAS® STANDARD



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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD UNDER THE CASH BASIS OF ACCOUNTING—ISSUED IN 2017

The International Public Sector Accounting Standards Board (the IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSAS). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSAS Accounting Standards will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in its Exposure Drafts and Consultation Papers.

The IPSASB issues IPSAS Accounting Standards dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting.

The adoption of IPSAS Accounting Standards by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB considers that this Standard is an important step forward in improving the consistency and comparability of financial reporting under the cash basis of accounting and encourages the adoption of this Standard. Financial statements should be described as complying with this IPSAS only if they comply with all the requirements of Part 1 of this IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSAS Accounting Standards prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications helpful, particularly *Pathways to Accrual*, which was developed by IFAC with content provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and feedback from the IPSASB and international community stakeholders.

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING—ISSUED IN 2017

Structure of the Standard

This Standard comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all public sector entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the Standard must be complied with by public sector entities which claim to be reporting in accordance with the International Public Sector Accounting Standard *Financial Reporting under the Cash Basis of Accounting*.
- Part 2 is not mandatory. It identifies additional accounting policies and disclosures that a public sector entity is encouraged to adopt to enhance the usefulness of its financial statements for accountability and decision-making purposes and to support its transition to the accrual basis of financial reporting and adoption of accrual IPSAS.
- The Cash Basis IPSAS was issued in January 2003. The IPSAS was updated with additional requirements and encouragements dealing with the presentation of budget information in 2006 and external assistance in 2007.
- In 2017 a revised Cash Basis IPSAS was issued. The objectives of the revisions were to:
    (a) Remove obstacles to the adoption of the Cash Basis IPSAS represented by the existing requirements dealing with consolidation, external assistance and third party payments: in particular, to recast the requirements in Part 1 of the IPSAS to prepare consolidated financial statements and disclose information about external assistance and third party payments as encouragements in Part 2 of the IPSAS;
    (b) Ensure that requirements and encouragements in the Standard are not contrary to those of the equivalent accrual IPSAS, except where such differences are appropriate to reflect adoption of the cash basis; and
    (c) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB's overall standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSAS, rather than as an end in itself.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

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PART 1: REQUIREMENTS

Part 1 of this Standard sets out the requirements for reporting under the cash basis of accounting.

Authoritative requirements are set out in bold italic type. They use the term "shall" to signal that they are authoritative requirements. They are to be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The purpose of this Standard is to prescribe the manner in which general purpose financial statements are to be presented under the cash basis of accounting.

The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial statements and other general purpose financial reports (GPFRs) for accountability and decision-making purposes. Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity's own general purpose financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

Role of the Cash Basis IPSAS

The IPSASB is of the view that the objectives of financial reporting can best be achieved by adoption of the accrual IPSAS. Consequently the IPSASB encourages governments and other public sector entities to present financial statements that comply with the requirements of the accrual IPSAS. However, the IPSASB appreciates that in some jurisdictions a transitionary process may be necessary to achieve that end. The Cash Basis IPSAS has been developed as an intermediate step to assist in the transition to the accrual basis of financial reporting and adoption of accrual IPSAS. It is not intended as an end in itself. The role of the encouraged disclosures in Part 2 of the Standard is to support an entity's transition to the accrual basis of financial reporting and adoption of the accrual IPSAS.

The path chosen to transition to the accrual basis of financial reporting and adoption of the accrual IPSAS will reflect jurisdiction circumstances and, consequently, may differ from jurisdiction to jurisdiction. The IPSASB does not specify that a particular transitional path should be adopted nor that entities must necessarily adopt the Cash Basis IPSAS as the first step in the transition process.

1.1 Scope of the Requirements

1.1.1 The IPSAS are designed to apply to public sector entities[1] that meet all the following criteria:

(a) Are responsible for the delivery of services[2] to benefit the public and/or to redistribute income and wealth;

(b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and

[1] Paragraph 1.8 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* identifies a wide range of public sector entities for which IPSAS are designed.

[2] Services encompasses goods, services and policy advice, including to other public sector entities.

(c) Do not have a primary objective to make profits.

1.1.2 ***A public sector entity which prepares and presents general purpose financial statements (financial statements) under the cash basis of accounting, as defined in this Standard, shall apply the requirements of Part 1 of this Standard in the presentation of its annual financial statements.***

1.1.3 General purpose financial statements are developed primarily to respond to the information needs of service recipients and resource providers who are not in a position to demand reports tailored to meet their specific information needs, and representatives of these users. Service recipients and their representatives and resource providers and their representatives include citizens, residents, taxpayers and ratepayers, members of the legislature (or similar body) and members of parliament (or a similar representative body), donor agencies, lenders and others that provide resources to, or benefit from, services of governments. General purpose financial statements prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report. For purposes of this Standard, the terms "general purpose financial statements" and "financial statements" are used interchangeably, unless specified otherwise.

1.1.4 A reporting entity is an individual entity that presents financial statements or, where a controlling entity elects to present group financial statements, a reporting entity may comprise a controlling entity and one or more controlled entities that present financial statements as if they are a single entity. A public sector reporting entity (hereafter referred to as a reporting entity or entity, unless specified otherwise) is a government or other public sector organization, program or identifiable area of activity for which financial statements are prepared. Paragraph 1.4.7 of this Standard requires the disclosure of certain information about the entities and activities in respect of which financial statements have been prepared.

1.1.5 This Standard applies equally to the financial statements of an individual entity and to the financial statements of a reporting entity that comprises a controlling entity and one or more controlled entities. It requires the preparation of a statement of cash receipts and payments which recognizes the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes.

1.1.6 ***An entity whose financial statements comply with the requirements of Part 1 of this Standard shall disclose that fact. Financial statements shall not be described as complying with this Standard unless they comply with all the requirements in Part 1 of this Standard.***

1.2 The Cash Basis

Definitions

1.2.1 ***The following terms are used in this Standard with the meaning specified:***

Cash comprises cash on hand, demand deposits and cash equivalents.

Cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash.

Cash payments are cash outflows.

Cash receipts are cash inflows.

***Control of cash** arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.*

***Control of an entity:** An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.*

***Controlled entity** is an entity that is under the control of another entity (known as the controlling entity).*

Cash Basis of Accounting

1.2.2 The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

Cash Equivalents

1.2.3 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

1.2.4 Bank borrowings are generally considered to give rise to cash inflows. However, in some jurisdictions, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

1.2.5 Cash flows exclude movements between items that constitute cash because these components are part of the cash management of an entity rather than increases or decreases in the cash it controls. Cash management includes the investment of excess cash on hand in cash equivalents.

Cash Controlled by the Reporting Entity

1.2.6 Cash is controlled by an entity when the entity can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, an entity which the entity can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the entity.

1.2.7 Amounts deposited in the bank account of an entity are controlled by that entity. In some cases, cash which a government entity:

(a) Collects on behalf of its government (or another entity) is deposited in its own bank account before transfer to consolidated revenue or another general government account; and

(b) Is to transfer to third parties on behalf of its government is initially deposited in its own bank account prior to transfer to the authorized recipient.

In these cases, the entity will control the cash for only the period during which the cash resides in its bank account prior to transfer to consolidated revenue or another government controlled bank account, or to third

parties. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions. Additional guidance on the treatment of cash flows that an entity administers on behalf of other entities is included in paragraphs 2.1.6 to 2.1.13 of Part 2 of this Standard.

1.2.8 In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a "treasury single account". Under these arrangements, individual departments and entities do not establish their own separate bank accounts. Rather, the centralized treasury function acts as a bank on behalf of the individual departments and other entities. The cash inflows, cash outflows and cash balances of the entity which flow through, or are held in, the treasury single account will be reported in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.4. From the perspective of the centralized treasury function, payments on behalf of individual departments and other entities are treated as changes within their accounts — reflecting the approach adopted by a bank in accounting for payments made on behalf of its customers.

1.2.9 In some cases, the centralized treasury function will be undertaken by an entity which controls the bank account(s) from which payments on behalf of the individual operating departments and other entities are made. In these cases, transfers to and payments from those bank accounts reflect cash receipts and payments which the central entity administers on behalf of the individual operating departments and other entities. Paragraph 1.3.13 specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other entities and which are recognized in the primary financial statements may be reported on a net basis. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions.

Control of an entity

1.2.10 Governments and other public sector entities may control a large number of entities including government departments, agencies and commercial public sector entities. Financial statements may be prepared in respect of a reporting entity that comprises an individual entity or a controlling entity and all or some of its controlled entities. This Standard encourages (at paragraph 2.1.37) but does not require, controlling entities to prepare and present consolidated financial statements that encompass the controlling entity and all its controlled entities, with exceptions in certain defined circumstances. The factors to be considered in assessing whether one entity controls another entity for financial reporting purposes are set out in IPSAS 35, *Consolidated Financial Statements*.

1.3 Presentation and Disclosure Requirements

Definitions

1.3.1 ***The following terms are used in this Standard with the meanings specified:***

***Accounting policies** are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.*

***Materiality:** information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's financial statements prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.*

***Reporting date** means the date of the last day of the reporting period to which financial statements relate.*

1.3.2 Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation

and classification is the presentation of condensed and classified data that form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.

1.3.3 The principle of materiality provides that the specific disclosure requirements of International Public Sector Accounting Standards need not be met if the resulting information is not material.

Financial Statements

1.3.4 ***An entity shall prepare and present financial statements which include the following components:***

(a) ***A statement of cash receipts and payments which recognizes all cash receipts, cash payments and cash balances controlled by the entity;***

(b) ***Accounting policies and explanatory notes; and***

(c) ***When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.7.8 of this Standard.***

1.3.5 ***When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraph 1.3.4(c), such information shall be disclosed in the notes to the financial statements.***

1.3.6 The financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognized as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the financial statements may include a comparison of budget and actual amounts as an additional financial statement.

1.3.7 Paragraph 1.7.17 of this Standard provides that an entity can present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented.

1.3.8 Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include information required and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability.

1.3.9 This Standard does not preclude an entity from including in its general purpose financial statements, statements in addition to the statement of cash receipts and payments as specified in paragraph 1.3.4 above. Consequently, general purpose financial statements may also include additional statements which, for example:

(a) Report cash receipts, cash payments and cash balances for major fund categories such as the consolidated revenue fund;

(b) Provide additional information about the sources and deployment of borrowings and the nature and type of cash payments; or

(c) Provide a comparison of actual and budget amounts.

In accordance with the requirements of paragraph 1.3.5 above, any additional statements will only report cash receipts, payments and balances which are controlled by the entity.

1.3.10 Entities that report using the cash basis of accounting frequently collect information on items that are not recognized under cash accounting. Examples of the type of information that may be collected include details of:

(a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;

(b) Commitments and contingent liabilities; and

(c) Performance indicators and the achievement of service delivery objectives.

1.3.11 Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves, comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.

Information to be Presented in the Statement of Cash Receipts and Payments

1.3.12 ***The statement of cash receipts and payments shall present the following amounts for the reporting period:***

(a) ***Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;***

(b) ***Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and***

(c) ***Beginning and closing cash balances of the entity.***

1.3.13 ***Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, shall be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:***

(a) ***They arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or***

(b) ***They are for items in which the turnover is quick, the amounts are large, and the maturities are short.***

1.3.14 ***Line items, headings and sub-totals shall be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.***

1.3.15 This Standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof. This will ensure that the financial statements provide comprehensive information about the cash balances of the entity and changes therein over the period in a format that is accessible and understandable to users.

1.3.16 Disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the

acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows.

Classification

1.3.17 The sub-classifications (or classes) of total cash receipts and payments which will be disclosed in accordance with paragraphs 1.3.12 and 1.3.14 are a matter of professional judgment. That judgment will be applied in the context of the objectives and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarizes the qualitative characteristics of information included in general purpose financial reports. Total cash receipts may be classified to, for example, separately identify cash receipts from: taxation or appropriation; grants and donations; borrowings; proceeds from the disposal of property, plant and equipment; and other ongoing service delivery and trading activities. Total cash payments may be classified to, for example, separately identify cash payments in respect of: ongoing service delivery activities including transfers to constituents or other governments or entities; debt reduction programs; acquisitions of property, plant and equipment; and any trading activities. Alternative presentations are also possible, for example total cash receipts may be classified by reference to their source and cash payments may be sub-classified by reference to either the nature of the payments or their function or program within the entity, as appropriate.

1.3.18 Part 2 of this Standard encourages the disclosure of certain information about external assistance and other assistance received during the reporting period, and the balance of undrawn external assistance and other assistance available to the entity at reporting date. For many public sector reporting entities in developing economies, the classification of cash receipts and payments to identify the amount of external assistance and other assistance received as cash and the use of that assistance is likely to be relevant for accountability and decision-making purposes.

Line Items, Headings and Sub-Totals

1.3.19 Factors to be taken into consideration in determining which line items, headings and sub-totals should be presented within each sub-classification in accordance with the requirements of paragraph 1.3.14 above include: the requirements of other sections of this Standard; assessments of the likely materiality of the disclosures to users; and the extent to which necessary explanations and disclosures are made in the notes to the financial statements. Part 2 of this Standard sets out disclosures of additional major classes of cash flows that an entity is encouraged to make in the notes to the financial statements or in the financial statements themselves. It is likely that in many, but not necessarily all, cases these disclosures will satisfy the requirements of paragraph 1.3.12 above.

Reporting on a Net Basis

1.3.20 This Standard requires the reporting of cash receipts, payments and balances on a gross basis except in the circumstances identified by paragraph 1.3.13 above. Paragraphs 1.3.21 and 1.3.24 below further elaborate on those circumstances in which reporting on a net basis may be justified.

1.3.21 Governments and government departments and other government entities may administer transactions and otherwise act as agents on behalf of others. These administered and agency transactions may encompass the collection of revenues on behalf of another entity, the transfer of funds to eligible beneficiaries or the safekeeping of monies on behalf of constituents. Examples of such activities may include:

(a) The collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement;

(b) The acceptance and repayment of demand deposits of a financial institution;

(c) Funds held for customers by an investment or trust entity;

(d) Rents collected on behalf of, and paid over to, the owners of properties;

(e) Transfers by a government department to third parties consistent with legislation or other government authority; and

(f) Funds administered by a central entity under the "single account" basis for management of government expenditure (as referred to in paragraph 1.2.8).

1.3.22 In many cases, the cash an entity receives in respect of transactions it administers as an agent for others will be deposited in trust accounts for, or directly in the bank account of, the ultimate recipients of the cash. In these cases, the entity will not control the cash it receives in respect of the transactions it administers and these cash flows will not form part of the cash receipts, cash payments or cash balances of the entity. However, in other cases the cash received will be deposited in bank accounts controlled by the entity acting as an agent and the receipt and transfer of that cash will be reported in the statement of cash receipts and payments of the entity.

1.3.23 In some cases, the amounts of the cash flows arising from administered transactions which "pass-through" the bank account of the reporting entity may be large relative to the entity's own transactions, and control may occur for only a short time before the amounts are transferred to the ultimate recipients. This may also be true for other cash flows including for example, advances made for, and the repayment of:

(a) The purchase and sale of investments; and

(b) Other short-term borrowings, for example, those which have a maturity period of three months or less.

1.3.24 The recognition of these transactions on a gross basis may undermine the ability of the financial statements of some governments and government entities to communicate information about cash receipts and cash payments resulting from the entity's own activities. Accordingly, this Standard permits cash receipts and cash payments to be offset and reported on a net basis in the statement of cash receipts and payments in the circumstances identified in paragraph 1.3.13 above.

Accounting Policies and Explanatory Notes

Structure of the Notes

1.3.25 ***The notes to the financial statements of an entity shall:***

(a) ***Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and***

(b) ***Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances.***

1.3.26 ***Notes to the financial statements shall be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements shall be cross referenced to any related information in the notes.***

Selection and Disclosure of Accounting Policies

1.3.27 ***Financial statements shall present information that is:***

(a) ***Understandable;***

(b) ***Relevant to the decision-making and accountability needs of users;***

(c) ***A faithful representation of the cash receipts, cash payments and cash balances of the entity and the other information disclosed in the financial statements in that it is:***

(i) **Complete;**

(ii) **Neutral; and**

(iii) **Free from material error;**

(d) ***Comparable;***

(e) ***Timely; and***

(f) ***Verifiable.***

Constraints on information included in financial statements are that it is material, satisfies a cost-benefit assessment, and achieves an appropriate balance between the qualitative characteristics identified in (a) to (f) above.

1.3.28 The quality of information provided in financial statements determines the usefulness of those statements to users. Paragraph 1.3.27 identifies the qualitative characteristics of, and pervasive constraints on, information included in financial statements. It requires the development of accounting policies to ensure that the financial statements provide information that meets the qualitative characteristics identified in paragraphs 1.3.27(a) to 1.3.27(f), and satisfies the constraints on information included in financial statements. Appendix 4 of this Standard summarizes the qualitative characteristics of, and constraints on, information included in general purpose financial reports. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the financial statement.

1.3.29 ***The accounting policies section of the notes to the financial statements shall describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard.***

1.3.30 ***Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.***

1.3.31 In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances. An accounting policy may be significant even if amounts shown for current and prior periods are not material. Paragraph 1.3.4 of this Standard specifies that general purpose financial statements include accounting policies and explanatory notes. Consequently, the requirements of paragraph 1.3.29 above also apply to notes to the financial statements.

1.3.32 ***Where an entity elects to include in its financial statements any disclosures encouraged in Part 2 of this Standard, those disclosures shall comply with the requirements of paragraph 1.3.27 above.***

1.3.33 Part 2 of this Standard encourages the disclosure of additional information in notes to the financial statements. Where such disclosures are made, they will need to be understandable and to satisfy the other qualitative characteristics of financial information.

1.4 General Considerations

Reporting Period

1.4.1 ***The general purpose financial statements shall be presented at least annually. When, in exceptional circumstances, an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose in addition to the period covered by the financial statements:***

(a) ***The reason(s) for a period other than one year being used; and***

(b) ***The fact that comparative amounts may not be comparable.***

1.4.2 The reporting date is the date of the last day of the reporting period to which the financial statements relate. In exceptional circumstances an entity may be required to, or decide to, change its reporting date to, for example, align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that the reason for the change in reporting date is disclosed and that users are aware that the amounts shown for the current period and the comparative amounts are not comparable.

1.4.3 Normally, the financial statements are consistently prepared covering a one-year period. However, some entities prefer to report, for example, for a 52 week period for practical reasons. This Standard does not preclude this practice, as the resulting financial statements are unlikely to be materially different from that which would be presented for one year.

Timeliness

1.4.4 The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

Authorization Date

1.4.5 ***An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity shall disclose that fact.***

1.4.6 The authorization date is the date on which the financial statements have received approval from the individual or body with the authority to finalize those statements for issue. It is important for users to know when the financial statements were authorized for issue, because the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organizations have the authority to amend the financial statements after issuance. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are Ministers, the government of which the entity forms part, Parliament or an elected body of representatives. If changes are made, the amended financial statements are a new set of financial statements.

Information about the Entity

1.4.7 ***An entity shall disclose the following in the notes to the financial statements if not disclosed elsewhere in information published with the financial statements:***

(a) ***The domicile and legal form of the entity, and the jurisdiction(s) within which it operates;***

(b) ***A description of the nature of the entity's operations and principal activities;***

(c) ***A reference to the relevant legislation governing the entity's operations, if any; and***

(d) ***The significant entities or sectors of government that are presented in the financial statements, and changes in the significant entities or sectors that comprise the reporting entity and were presented in the previous periods financial statements.***

1.4.8 Financial statements may be prepared for a single organization or administrative unit such as a government department, agency or program; for the government as a whole; or for a group of entities or identifiable activities such as those that reflect the budget sector, general government sector or other sector of

government. The disclosure of the information required by paragraph 1.4.7 will enable users to identify the nature of the entity's operations and gain an understanding of the legislative and institutional environment within which it operates. It will also enable users to identify the significant entities or sectors that make up the reporting entity and changes therein since the last reporting date. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.

Restrictions on Cash Balances and Access to Borrowings

1.4.9 ***An entity shall disclose in the notes to the financial statements together with a commentary, the nature and amount of:***

(a) ***Significant cash balances that are not available for use by the entity;***

(b) ***Significant cash balances that are subject to external restrictions; and***

(c) ***Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.***

1.4.10 Cash balances held by an entity would not be available for use by the entity when, for example, a controlled entity operates in a country where exchange controls or other legal restrictions apply and the balances are not available for general use by the controlling entity or other controlled entities.

1.4.11 Cash balances controlled by an entity may be subject to restrictions which limit the purpose or timing of their use. This situation often exists when an entity receives a grant or donation which must be used for a specific purpose. It may also exist where, at reporting date, an entity holds in its own bank accounts cash it has collected for other parties in its capacity as an agent but not yet transferred to those parties. Although these balances are controlled by the entity and reported as a cash balance of the entity, separate disclosure of the amount of such items is helpful to readers.

1.4.12 Undrawn borrowing facilities represent a potential source of cash for an entity. Disclosure of the amount of these facilities by significant type allows readers to assess the availability of such cash, and the extent to which the entity has made use of them during the reporting period.

Consistency of Presentation

1.4.13 ***The presentation and classification of items in the financial statements shall be retained from one period to the next unless:***

(a) ***It is apparent, following a significant change in the nature of the operations of the entity or a review of its financial statements that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in paragraph 1.3.27; or***

(b) ***A change in presentation is required by a future amendment to this Standard.***

1.4.14 A major restructuring of service delivery arrangements; the creation of a new, or termination of a major existing, government entity; a significant acquisition or disposal; or a review of the overall presentation of the entity's financial statements might suggest that the statement of cash receipts and payments or other individual financial statements should be presented differently. For example, a government may dispose of a government savings bank that represents one of its most significant entities with the remaining entities conducting mainly administrative and policy advice services. In this case, the presentation of the financial statements identifying a financial institution as a principal activity of the government is unlikely to be relevant.

1.4.15 Only if the revised structure is likely to continue, or if an alternative presentation provides information that is a faithful representation and is more relevant to users of the financial statement, should an entity change the presentation of its financial statements. When such changes in presentation are made, an entity reclassifies

its comparative information in accordance with paragraph 1.4.19. Where an entity complies with this International Public Sector Accounting Standard, a change in presentation to comply with national requirements is permitted as long as the revised presentation is consistent with the requirements of this Standard.

Comparative Information

1.4.16 ***Unless a provision of this Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information shall be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.***

1.4.17 This Standard requires the presentation of a statement of cash receipts and payments and specifies certain disclosures that are required to be made in that statement and notes thereto. This Standard does not preclude the preparation of additional financial statements. Part 2 of this Standard encourages certain additional disclosures. Where financial statements in addition to the statement of cash receipts and payments are prepared or disclosures encouraged by Part 2 of this Standard are made, the disclosure of comparative information is also encouraged.

1.4.18 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, may be disclosed in the current period. Users benefit from knowing that the uncertainty existed at the last reporting date, and the steps that have been taken during the period to resolve the uncertainty.

1.4.19 ***When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts shall be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification shall be disclosed. When it is impracticable to reclassify comparative amounts, an entity shall disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.***

1.4.20 Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

Identification of Financial Statements

1.4.21 ***The financial statements shall be clearly identified and distinguished from other information in the same published document.***

1.4.22 This Standard applies only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that may be useful to users but that is not the subject of this Standard.

1.4.23 ***Each component of the financial statements shall be clearly identified. In addition, the following information shall be prominently displayed and repeated when it is necessary for a proper understanding of the information presented:***

(a) ***The name of the reporting entity or other means of identification;***

(b) ***Whether the financial statements cover an individual entity or a group of entities;***

(c) ***The reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;***

(d) ***The presentation currency; and***

(e) ***The level of precision used in the presentation of figures in the financial statements.***

1.4.24 The requirements in paragraph 1.4.23 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used. In such cases, the items identified in paragraph 1.4.23 are presented frequently enough to ensure a proper understanding of the information given.

1.4.25 Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

1.5 Correction of Errors

1.5.1 ***When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods shall be reported by adjusting the cash at the beginning of the period. Comparative information shall be restated, unless it is impracticable to do so.***

1.5.2 ***An entity shall disclose in the notes to the financial statements the following:***

(a) ***The nature of the error that relates to a prior period;***

(b) ***The amount of the correction; and***

(c) ***The fact that comparative information has been restated or that it is impracticable to do so.***

1.5.3 Potential current period errors discovered in the current period are corrected before the financial statements are authorized for issue. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. When an error is identified in respect of a previous period, the opening balance of cash is adjusted to correct the prior period error and the financial statements, including the comparative information for prior periods, is presented as if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes.

1.5.4 The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.

1.5.5 This Standard requires the presentation of a statement of cash receipts and payments, and does not preclude the presentation of other financial statements. Where financial statements in addition to the statement of cash receipts and payments are presented, the requirements in paragraphs 1.5.1 and 1.5.2 for correction of errors will also apply to those statements.

1.6 Foreign Currency

Definitions

1.6.1 ***The following terms are used in this Standard with the meanings specified:***

***Closing rate** is the spot exchange rate at the reporting date.*

***Exchange difference** is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.*

***Exchange rate** is the ratio of exchange for two currencies.*

***Foreign currency** is a currency other than the presentation currency of the entity.*

***Presentation currency** is the currency in which the financial statements are presented.*

***Spot exchange rate** is the exchange rate for immediate delivery.*

Treatment of Foreign Currency Cash Receipts, Payments and Balances

1.6.2 ***Cash receipts and payments arising from transactions in a foreign currency shall be incorporated in the Statement of Receipts and Payments in an entity's presentation currency by applying to the foreign currency amount the spot exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.***

1.6.3 ***Cash balances held in a foreign currency shall be translated using the closing rate.***

1.6.4 ***The cash receipts and cash payments of a foreign controlled entity shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the receipts and payments.***

1.6.5 ***An entity shall disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.***

1.6.6 ***When the presentation currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency shall be disclosed. The reason for any change in the presentation currency shall also be disclosed.***

1.6.7 Governments and government entities may have transactions in foreign currencies such as borrowing an amount of foreign currency, receiving external and other assistance in the form of foreign currency, or purchasing goods and services where the purchase price is designated as a foreign currency amount. They may also have foreign operations and transfer cash to and receive cash from those foreign operations. In order to include foreign currency transactions and foreign operations in financial statements the entity must express cash receipts, payments and balances in the currency in which the reporting entity presents its financial statements.

1.6.8 Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of cash receipts and payments in order to reconcile cash at the beginning and the end of the period. This amount is presented separately from cash receipts and payments and includes the differences, if any, had those cash receipts payments and balances been reported at end-of-period exchange rates.

1.7 Presentation of Budget Information in Financial Statements

Definitions

1.7.1 ***The following terms are used in this Standard with the meanings specified:***

***Accounting basis** means the accrual or cash basis of accounting as defined in the accrual basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.*

***Annual budget** means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.*

***Appropriation** is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.*

***Approved budget** means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period.*

***Budgetary basis** means the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.*

***Comparable basis** means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.*

***Final budget** is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period.*

***Multiyear budget** is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.*

***Original budget** is the initial approved budget for the budget period.*

Approved Budgets

1.7.2 An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multiyear budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information which may be in the form of a forecast, a projection or a combination of both – for example, a one year forecast plus a five year projection.

1.7.3 In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget and in others it may be the final budget.

1.7.4 If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

Original and Final Budget

1.7.5 The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they

may be referred to as obligations or encumbrances and include outstanding purchase orders and contracts where goods or services have not yet been received.

1.7.6 Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, war or natural disasters. In addition, there may be a shortfall in budgeted receipts during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.

Actual Amounts

1.7.7 This Standard uses the term actual or actual amounts to describe the amounts that result from execution of the budget. In some jurisdictions, budget out-turn, budget execution or similar terms may be used with the same meaning as actual or actual amounts.

Presentation of a Comparison of Budget and Actual Amounts

1.7.8 ***Subject to the requirements of paragraph 1.7.17, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:***

(a) ***The original and final budget amounts;***

(b) ***The actual amounts on a comparable basis; and***

(c) ***By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.***

Scope

1.7.9 This Standard applies to all entities that are required to, or elect to, make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or include comparisons with, approved budgets which are not made publicly available.

1.7.10 In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of a government or other public sector entity. This may occur where, for example, a government's financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Comparison of Budget and Actual Amounts

1.7.11 Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget, which is made publicly available, will complete the accountability cycle by

enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the "variance" in accounting), may also be presented in the financial statements for completeness.

1.7.12 An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

1.7.13 An entity may be required, or may elect, to make publicly available its original budget, its final budget or both its original and final budget. In circumstances where both original and final budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 1.7.8(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and final budget to focus on compliance with the final budget.

1.7.14 In many cases, the final budget amount and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 1.7.23 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. That disclosure, together with the disclosures required by paragraph 1.7.8 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

1.7.15 Management discussion and analysis, operations review or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 1.7.8(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the reports or documents in which the explanation can be found.

1.7.16 Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 1.7.8 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole-of-government reporting entity, the disclosures required by paragraph 1.7.8 will be made only in respect of the general government sector of the government.

Presentation

1.7.17 ***An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.***

1.7.18 Comparisons of budget and actual amounts may be presented in a separate financial statement ("statement of comparison of budget and actual amounts" or a similarly titled statement). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the statement of cash receipts and payments presented in accordance with this Standard. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

1.7.19 When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented. In these cases, to ensure that readers do not misinterpret financial information which is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

Level of Aggregation

1.7.20 Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common budget heads, budget classifications or budget headings for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget document(s).

1.7.21 In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial statements as identified in paragraph 1.3.27 of this Standard.

1.7.22 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross reference to such documents.

Changes from Original to Final Budget

1.7.23 ***An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors, either:***

(a) ***By way of note disclosure in the financial statements; or***

(b) ***In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.***

1.7.24 The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include an explanation of changes between the original and final budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

Comparable Basis

1.7.25 ***All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.***

1.7.26 The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash or other basis), same classification basis and for the same entities and period as for the approved budget. This

will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

1.7.27 As noted in paragraph 1.7.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the reporting entity. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements and encouragements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

1.7.28 Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some, albeit rare, cases a government or government agency may adopt the cash basis for its financial statements and the accrual basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report cash receipts and payments and balances thereof. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public and other users on a relevant and timely basis.

1.7.29 In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector and encompass only entities fulfilling the “primary” or “non-market” functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government.

1.7.30 In statistical reporting models, the general government sector may comprise national, state/provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its financial statements and develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental entities. However, where a national government does not control state or local governments, the consolidated financial statements of the national government will not consolidate state/provincial or local governments that it does not control. However, separate financial statements may be prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Multiyear Budgets

1.7.31 Some governments and other entities approve and make publicly available multiyear budgets, rather than separate annual budgets. Conventionally, multiyear budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multiyear budget for that component period. In some cases, the multiyear budget provides for a roll forward of unused appropriations in any single year.

1.7.32 Governments and other entities with multiyear budgets may take different approaches to determining their original and final budget depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial budget are legally authorized to be spent in the second year, the "original" budget for the second year period will be increased for these "carry over" amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in identifying which amounts are attributable to each annual period for determining the annual budget for the purposes of this Standard. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the "original" budget for the second annual period and that budget together with any amendments thereto would form the final budget for the second year. Part 2 of this Standard encourages disclosure of the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

1.7.33 ***An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.***

1.7.34 There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows plus certain accruals and commitments, while the financial statements report cash receipts and cash payments.

1.7.35 Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, expenditures by economic nature (compensation of employees, supplies and consumables, grants and transfers, etc.) or function (health, education, etc.). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, students graduating from tertiary education or surgical operations performed by hospital emergency services), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education or health) may be approved separately from a capital budget for capital outlays (for example, infrastructure or buildings).

1.7.36 Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.

1.7.37 ***An entity shall disclose in notes to the financial statements the period of the approved budget.***

1.7.38 Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multiyear periods. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the financial statements will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.

1.7.39 ***An entity shall identify in notes to the financial statements the entities included in the approved budget.***

1.7.40 Paragraph 2.1.37 of Part 2 of this Standard encourages controlling entities to prepare and present consolidated financial statements which encompass budget-dependent entities and commercial public sector entities controlled by the government. However, as noted in paragraph 1.7.29, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph 1.7.25, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the financial statements.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

1.7.41 ***The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.7.25 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.***

1.7.42 Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the financial statements can usefully be classified into the following:

(a) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the accrual basis or modified cash basis and the financial statements are prepared on the cash basis;

(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

(c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

1.7.43 The reconciliation required by paragraph 1.7.41 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the total cash receipts and total cash payments recognized in the statement of cash receipts and payments. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

1.7.44 For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only non-commercial activities of the entity, or may be a multiyear budget. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis.

1.7.45 ***The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.***

1.7.46 This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

1.8 Effective Date of Part 1 and Transitional Provisions

Transitional Provisions

1.8.1 ***Entities which are adopting the Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting for the first time shall apply all its provisions from the date of its first adoption.***

1.8.2 ***Entities that currently present financial statements in accordance with the superseded Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting are not required to comply with the requirements in this Standard until 1 January 2019.***

1.8.3 ***Where entities apply the transitional provision in paragraph 1.8.2, they shall disclose the accounting policies that have not yet been adopted.***

1.8.4 When an entity adopts the Cash Basis IPSAS for the first time, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption. The transitional provisions provide entities that currently adopt the Cash Basis IPSAS with a period of up to two years from the effective date of this Standard to adopt all of its accounting policies. Entities that take advantage of the transitional provisions shall identify the policies that they are not yet fully compliant with. All changes to accounting policies resulting from the application of this Standard shall be accounted for in accordance with the requirements of paragraphs 1.8.11 to 1.8.13 below.

Effective Date

1.8.5 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2019 it shall disclose that fact.***

1.8.6 This Standard applies to an entity which adopts the Cash Basis IPSAS for the first time and to an entity which already adopts the Cash Basis IPSAS.

Withdrawal of the Cash Basis IPSAS (2007)

1.8.7 ***This Standard supersedes the Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting issued in 2007.***

1.8.8 The Cash Basis IPSAS was first issued in January 2003. It was applicable to annual financial statements covering periods beginning on or after 1 January 2004. It was subsequently updated with additional requirements and encouragements dealing with budget reporting and external assistance in 2006 and 2007. The effective date of the additional requirements in Section 9, *Presentation of Budget Information in Financial Statements* and Section 10*, Recipients of External Assistance* of Part 1 of the Standard was for annual financial statements covering periods beginning on or after 1 January 2009.

1.8.9 This Standard was issued in 2017. It supersedes the 2007 Standard previously on issue. It has been revised to provide relief from the requirement for preparation of consolidated financial statements and disclosure of information about third party payments and external assistance included in Part 1 of the 2007 Standard. Certain of those requirements are now included as encouragements in Part 2 of this Standard. This Standard

has also been amended to better align with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and the accrual IPSAS currently on issue where appropriate.

1.8.10 The combination of requirements and encouragements in Part 1 and Part 2 of this Standard will mean that in many, though not necessarily all, respects information presented in financial statements prepared in accordance with the superseded standard will also be presented by financial statements prepared in accordance with this Standard. However, entities that presented financial statements that complied with the superseded standard will need to review the requirements and encouragements in this Standard to ensure they remain compliant.

Changes in Accounting Policies of Entities that Adopt the Superseded Cash Basis IPSAS

1.8.11 ***When the adoption of this Standard requires a change in an accounting policy of an entity that currently applies the superseded Cash Basis IPSAS, the entity shall apply the change retrospectively by adjusting the opening cash balance of the current period presented and the other comparative amounts disclosed for the immediate prior period presented as if the new accounting policy had always been applied.***

1.8.12 ***When it is impracticable for an entity that currently applies the superseded Cash Basis IPSAS to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to the immediate prior period presented, the entity shall:***

(a) ***Apply the new accounting policy to transactions, other events and conditions occurring after the date at which the policy is changed; and***

(b) ***Recognize the effects of the new policy on the cash receipts, payments and balances of the current period and future periods affected by the change.***

1.8.13 ***When initial application of this Standard by an entity that currently applies the superseded Cash Basis IPSAS, (a) has an effect on the current period or the immediate prior period, or (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, the entity shall disclose:***

(a) ***The nature of the change in accounting policy;***

(b) ***For the current period and the immediate prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and***

(c) ***If retrospective application required by paragraph 1.8.11 is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.***

Basis for Conclusions – Cash Basis IPSAS Part 1

This Basis for Conclusions accompanies, but is not part of the IPSAS, Financial Reporting under the Cash Basis of Accounting.

The Basis for Conclusions which follows Part 2 of this Standard deals with amendments to the encouragements in Part 2.

Introduction

BC1 The IPSAS, *Financial Reporting under the Cash Basis of Accounting* (the Cash Basis IPSAS) was issued in January 2003 and updated with additional requirements and encouragements about the presentation of budget information in 2006 and external assistance in 2007. It comprises two parts: Part 1 identifies the requirements that must be adopted by a reporting entity whose general purpose financial statements comply with this Standard. Part 2 identifies encouraged additional disclosures which provide additional information useful for accountability and decision-making purposes and support those entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS.

Reasons for, and Scope of, this Review

BC2 While there are different views about just how many governments and other public sector entities have adopted the Cash Basis IPSAS, there is general agreement that it is not widely adopted. The requirements for consolidation, external assistance and third party payments have been identified by the IPSASB Task Force established to review operation of the IPSAS (IPSASB Task Force Report 2010) and many constituents, including those implementing the IPSAS, as major obstacles to adoption of the Cash Basis IPSAS.

BC3 Despite its limited adoption, the IPSASB's strategy consultation in 2014 found that there is strong support for retention of the Cash Basis IPSAS, whether as a Standard in its own right or as first step on the transition to the accrual basis of financial reporting and adoption of accrual IPSAS and, in some cases, for revisions to its requirements to remove obstacles to its adoption. Entities transitioning to the accrual basis of financial reporting are also encouraged to refer to IPSASB Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities* (Third Edition January 2011) which provides guidance on the approaches that may be adopted in transitioning to the accrual basis.

BC4 The amendments made through this revised Cash Basis IPSAS (2017) reflect a limited scope review of the IPSAS as a response to input the IPSASB has received from constituents on the operation of the Cash Basis IPSAS. The amendments are intended to:

(a) Overcome the substantial obstacles to its adoption represented by the requirements relating to consolidation, external assistance and third party payments; and

(b) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB's standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSAS, rather than an end in itself.

BC5 This revised Cash Basis IPSAS (2017) also includes minor "housekeeping" amendments intended to ensure that, while the requirements and encouragements in this Standard may differ from the requirements in equivalent accrual IPSAS, they are not contrary to those requirements unless intended to be so to reflect the cash basis focus in this Standard. Since issue of the Cash Basis IPSAS in 2003, the accrual IPSAS have been updated, and in some cases withdrawn and/or replaced. The "housekeeping" amendments reflect, as far as is appropriate, developments in the accrual IPSAS.

Consolidation

BC6 Many public sector entities wishing to prepare financial statements that comply with the requirements of this Standard and reflect best practice for financial reporting under the cash basis of accounting faced significant obstacles in the preparation and presentation of fully consolidated financial statements. This may be for a number of reasons including: (a) compatibility with existing legislation or regulation which requires the preparation of financial reports for the budget or general government sector or other grouping of activities; (b) difficulties in identifying all controlled entities at reporting date; (c) differences in the reporting basis adopted by commercial public sector entities, and (d) the capacity (including access to necessary technical expertise) to collect and process the necessary data on a timely basis and meet reporting deadlines.

BC7 Many constituents expressed concern that the previous consolidation requirements undermined the capacity of the Cash Basis IPSAS (2007) to perform its role of enhancing the quality of financial statements prepared under the cash basis of accounting and supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS — because governments and other public sector entities could not comply with the Standard. This revised Cash Basis IPSAS (2017) makes amendments to the Cash Basis IPSAS (2007) to respond to these concerns, as outlined below.

BC8 This revision removes from Part 1 of the Standard and recasts as an encouragement in Part 2 of the Standard the requirement that controlling entities are to prepare consolidated financial statements that consolidate all controlled entities be This is intended to overcome a major obstacle to adoption of the IPSAS.

BC9 Part 2 of this Standard also encourages controlling entities that do not consolidate all controlled entities to prepare financial statements that reflect a budget sector, general government sector or other representation of core government activities as they transition to the accrual basis of financial reporting and adoption of the accrual IPSAS. This supports an orderly and achievable transition to full consolidation as required by the accrual IPSAS, and responds to concerns of some constituents that full consolidation would result in the loss of information about core governmental activities and, in some cases, is contrary to legislative requirements.

BC10 To support those entities transitioning to the accrual basis, the key definitions, including that of control, are revised where necessary to ensure that they do not conflict with IPSAS 34, *Separate Financial Statements* and IPSAS 35, *Consolidated Financial Statements*.

BC11 The IPSASB considered a number of approaches to removing the obstacles to adoption represented by the current requirements for consolidation. While many of these approaches had merit, the IPSASB decided that, on balance, the approach taken in this revised Cash Basis IPSAS (2017) best responded to the concerns of those faced with implementing the Cash Basis IPSAS, and those dependent on financial statements prepared in accordance with the IPSAS for information useful for accountability and decision-making purposes. The other approaches considered, and IPSASB's reasons for not proposing their adoption, include:

(a) The inclusion of a transitional period of 3 to 5 years, or longer, from first adoption for entities to comply with the requirement that controlling entities shall consolidate all controlled entities. However, it is some 12 years since issue of the Cash Basis IPSAS and consolidation remains a major obstacle to its adoption. The IPSASB was not convinced that a 3 to 5 year transitional period was sufficient to overcome the wide, and differing, range of obstacles identified in many jurisdictions;

(b) Recasting all the consolidation requirements as encouragements, except for those requirements relating to the accounting procedures that are to be adopted in the preparation of consolidated financial statements and disclosure of the composition of the economic entity. Such an approach was appealing. It meant that the procedures adopted for the preparation of any consolidated financial statements would be identified as requirements to be applied consistently from period to period for the same economic entity and across all entities that complied with the IPSAS. However, the retention of these matters as requirements may continue to present obstacles to the adoption of the IPSAS. In addition, the IPSASB

was of the view that designation of some processes and disclosures central to the preparation and presentation of consolidated financial statements as requirements and the designation of other such processes and disclosures as only encouragements is difficult to justify and results in an unnecessarily complex Standard;

(c) Retaining the existing consolidation requirements but providing relief for specific practical obstacles such as the need to consolidate commercial public sector entities or other problematic class of public sector entities. Such an approach would respond to some of the obstacles identified by constituents and was appealing on that basis. However, it did not respond to all of the obstacles identified by constituents. In addition, for consistency of application, it would have also required an agreed definition of what constitutes a commercial public sector entity or other specified class of public sector entities. It was not clear that such a definition would be readily applicable across all jurisdictions; and

(d) Requiring presentation of financial statements for an economic entity that reflects the budget sector or the general government sector or similar interim group of controlled entities, rather than for all controlled entities. Such an approach responded to obstacles identified by constituents in many jurisdictions and was appealing on that basis. However, any attempt to define or specify such an interim group may trigger some jurisdictional specific obstacles, particularly if legislative requirements did not directly align with a specified interim group. It may also give rise to obstacles in jurisdictions that are transitioning to the accrual basis and have moved past the interim group reporting entity that might be specified. This revised Cash Basis IPSAS (2017) allows and acknowledges that group financial statements reflecting the budget sector or general government sector may be prepared and presented on the path to the full accrual basis.

External Assistance

BC12 The requirements and encouragements for the disclosure of information about external assistance were added to the Cash Basis IPSAS in 2007 in response to requests from, and with the support of, many recipients, donors and others from the financial reporting community who saw a need for internationally agreed authoritative requirements for financial reporting of external assistance under the cash basis of accounting.

BC13 However, the IPSASB was aware that the information recipients of external assistance needed to satisfy the requirements of that Standard was not made as readily available or accessible as was anticipated by the IPSASB and its constituents when the requirements were developed and, after being subject to the IPSASB's due process, included in the Cash Basis IPSAS (2007). The Cash Basis IPSAS (2007) provided some relief from the disclosure requirements when the information is not readily available or verifiable. However, the IPSASB was concerned that the extent to which that relief was necessary, and the resultant inability to verify the completeness and accuracy of information disclosed, may well have undermined the usefulness for accountability or decision-making purposes of any resultant information that was disclosed. This revised Cash Basis IPSAS (2017) responded to these concerns as outlined below.

BC14 All requirements to disclose information about external assistance received during the reporting period and available to the entity at reporting date have been removed from Part 1 and recast as encouragements in Part 2 of the IPSAS and revised to focus on the disclosure of information about external assistance received as cash or in the form of third party payments. The Cash Basis IPSAS (2017) also encourages disclosure of similar information about *other assistance* (assistance from non-government organizations and other sources) received by the entity during the period.

BC15 The recasting of these requirements as encouragements will overcome a major obstacle to adoption of the IPSAS. It also responds to concerns of constituents that the requirements for disclosure of information about external assistance included in the Cash Basis IPSAS (2007) were:

(a) More detailed and onerous than those specified in the accrual basis IPSAS, and that was not consistent with the role in supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS; and

(b) In the nature of information that sits more comfortably in special purpose financial reports than in general purpose financial statements.

BC16 External assistance received in cash will continue to be recognized in the Statement of Cash Receipts and Payments. Paragraph 1.3.18 is added to Part 1 of the Cash Basis IPSAS (2017) to explain that for many public sector reporting entities in developing economies, the amount of external assistance received as cash is likely to warrant separate disclosure in the statement of cash receipts and payments.

Third Party payments

BC17 In principle, the rationale for the disclosure of third party payments as a separate column on the statement of cash receipts and payments appears sound — to ensure that the form of arrangements to provide cash resources to support an entity's operations during any period, whether provided to the recipient entity for the acquisition of goods or services or provided directly to the supplier of those goods or services as designated by the recipient, does not determine whether it is reported in the statement of cash receipts and payments. However, payments made by third parties are likely to mostly comprise payments for goods and services that satisfy the definition of external assistance and other assistance.

BC18 Concerns about limited access to information necessary to satisfy the requirements for disclosure of information about external assistance in the form of third party payments noted above, and the potential misinterpretation of the inevitable incomplete information that results, also apply to other categories of third party payments.

BC19 The Cash Basis IPSAS (2017) removes from Part 1 and recasts as encouraged disclosures in Part 2 the requirements for disclosure of information about payments made by third parties. This responds to the concerns of many constituents and overcome a major obstacle to adoption of the IPSAS.

BC20 In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a "treasury single account". The Cash Basis IPSAS (2007) reflected that under "treasury single account" arrangements, amounts paid by a central agency on behalf of a government department or other government entity that is a reporting entity are also to be classified as third party payments. The IPSASB was of the view that, while the individual departments and entities do not establish separate bank accounts in which amounts authorized for their use are deposited, they can use and will benefit from those amounts. Therefore they do control such cash inflows, outflows and available balances. The Cash Basis IPSAS (2017) includes additional explanation of treasury single account arrangements to reflect the IPSASB's view that such arrangements do not give rise to third party payments.

"Housekeeping" — Correction of Errors, Foreign Currency, Government Business Enterprises and Qualitative Characteristics

BC21 Some minor amendments have been made to terminology and explanation of defined terms in sections dealing with *Correction of Errors* and *Foreign Currency* to ensure that the requirements of this Standard are not directly in conflict with those in the equivalent accrual IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued in December 2006 and last updated in October 2011), and IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (issued in April 2008 and last updated in October 2011).

BC22 The differences between the current IPSAS 3 and IPSAS 4 and the equivalent IPSAS that were on issue when the Cash Basis IPSAS (2007) was approved are substantial. In some cases, they involved different accounting methods and in other cases additional disclosures. Readers should be aware that the revisions to these sections in the Cash Basis IPSAS (2017) do not fully reflect all the requirements of the updated

IPSAS 3 and IPSAS 4. This is because the IPSASB has not received input that the requirements of the Cash Basis IPSAS (2007) present obstacles to its adoption. The IPSASB was concerned that amending the Cash Basis IPSAS to incorporate all changes to IPSAS 3 and IPSAS 4 may have some unintended effects that could introduce additional obstacles to adoption of the IPSAS. While more substantial amendments to these sections are beyond the limited scope of this review, they may be considered in any future review of the Standard.

BC23 As part of the housekeeping process, this revised Cash Basis IPSAS (2017):

(a) Deletes the definition and explanation of a *Government Business Enterprise* (GBE). The characteristics of the public sector entities to which IPSAS are designed to apply are identified. This is consistent with amendments made in the IPSAS, *Applicability of IPSAS* (issued April 2016);

(b) Updates the objectives of financial reporting and the identification and explanation of the qualitative characteristics of information included in general purpose financial statements and pervasive constraints on such information, and the users of general purpose financial statements, to better reflect their explanation in the Conceptual Framework. Similar amendments are being developed for inclusion in accrual IPSAS; and

(c) Brings together and amends the requirements for the effective date of application of the Standard and transitional arrangements to better reflect the equivalent requirements of IPSAS *3, Accounting Policies, Changes in Accounting Estimates and Errors* currently on issue.

Appendix 1

Illustration of the Requirements of Part 1 of the Standard

This Appendix is illustrative only and does not form part of the Standard. Its purpose is to assist in clarifying the meaning of the requirements of Part 1 of this Standard by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting for:

A The Financial Statements of National Government A;

B The financial Statements of Government Entity B, *which controls its own bank account; and*

C The financial Statements of Government Department C, *whose cash receipts and payments are managed through a* centralized treasury function often referred to as a *"treasury single account".*

APPENDIX 1A – GOVERNMENT A

FINANCIAL STATEMENTS FOR NATIONAL GOVERNMENT A

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 200X

(RECEIPTS ONLY)

(in thousands of currency units)	Note	200X Receipts/(Payments)		200X-1 Receipts/(Payments)	
RECEIPTS					
Taxation					
Income tax		X		X	
Value-added tax		X		X	
Property tax		X		X	
Other taxes		X		X	
			X		X
Donations, Grants and Other Aid	10		X		X
Borrowings	3				
Proceeds from:					
Commercial Institutions			X		
Development Banks and similar organizations			X		
Capital Receipts					
Proceeds from disposal of plant and equipment		X		X	
Proceeds from disposal of financial instruments		X		X	
			X		X
Trading Activities					
Receipts from trading activities			X		X
Other receipts	4		X		X
Total receipts			**X**		**X**

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
PAYMENTS			
Operations			
Wages, salaries and employee benefits		(X)	(X)
Supplies and consumables		(X)	(X)
		(X)	(X)
Transfers			
Grants		(X)	(X)
Other transfer payments		(X)	(X)
		(X)	(X)
Capital Payments			
Purchase/construction of plant and equipment		(X)	(X)
Purchase of financial instruments		(X)	(X)
		(X)	(X)
Loan and Interest Repayments			
Repayment of borrowings		(X)	(X)
Interest payments		(X)	(X)
		(X)	(X)
Other payments	5	(X)	(X)
Total payments		**(X)**	**(X)**
Increase/(Decrease)Cash		**X**	**X**
Cash beginning of year	2	**X**	**X**
Increase/(Decrease)Cash		**X**	**X**
Cash at end of year	*2*	**X**	**X**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT

For Government A for the Year Ended 31 December 200X

Budget Approved on the Cash Basis

(Classification of Payments by Functions)

(in thousands of currency units)	Actual Amounts	Final Budget	Original Budget	**Difference: Final Budget and Actual*
CASH INFLOWS				
Taxation	X	X	X	X
Grants and Aid agreements	X	X	X	X
Proceeds: borrowing	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X
Proceeds: disposal of financial instruments	X	X	X	X
Trading activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
CASH OUTFLOWS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Environmental Protection	(X)	(X)	(X)	(X)
General Public Services	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOWS	**X**	**X**	**X**	**X**

* The “Difference…” column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared to provide details of amounts included in the statement of cash receipts and payments: for example, to disclose information by major fund groups or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

STATEMENT OF CASH RECEIPTS BY FUND CLASSIFICATION

	200X	200X-1
(in thousands of currency units)	**Receipts**	**Receipts**
RECEIPTS		
Consolidated Funds	X	X
Special Funds	X	X
Trading Funds	X	X
Loans	X	X
Total receipts	**X**	**X**

PROCEEDS OF BORROWINGS

	Note	200X	200X-1
(in thousands of currency units)		**Cash Receipts**	**Cash Receipts**
BORROWINGS			
Domestic Commercial Institution		X	X
Offshore Commercial Institution		X	X
Development Banks and Similar Lending Agencies		X	X
Total borrowings	3	**X**	**X**

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF GOVERNMENT

(in thousands of currency units)	200X Payments	200X-1 Payments
PAYMENTS – Operating Account		
Education	X	X
Health	X	X
Social Protection	X	X
Defense	X	X
Public Order and Safety	X	X
Recreation, Culture and Religion	X	X
Economic Affairs	X	X
Environment Protection	X	X
General Public Services	X	X
Total payments	**X**	**X**
PAYMENTS – Capital Account		
Education	X	X
Health	X	X
Social Protection and Welfare	X	X
Defense	X	X
Public Order and Safety	X	X
Recreation, Culture and Religion	X	X
Environment Protection	X	X
General Public Services	X	X
Total payments	**X**	**X**
Total Operating and Capital Accounts	**X**	**X**

PUBLIC SECTOR ENTITY – WHOLE-OF-GOVERNMENT A

Notes to the Financial Statements

1. **Accounting Policies**

Basis of preparation

The financial statements have been prepared in accordance with Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for the national government of Country A. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government activities include the provision of health, education, defense, social protection, housing, recreational and cultural and general public services and economic management to, and on behalf of, constituents. [Identify level of government, jurisdiction and nature of services provided.]

A list of significant entities encompassed in the financial statements and the sectors in which they operate is shown in Note 7 to the financial statements.

Presentation currency

The presentation currency is (currency of Country A).

2. **Cash**

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and investments in short-term money market instruments.

Cash included in the statement of cash receipts and payments comprise the following amounts:

(in thousands of currency units)	**200X**	**200X-1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

Included in the amount stated above is X currency units provided by the International Agency XX that is restricted to the construction of road infrastructure.

3. **Borrowings**

Borrowings comprise cash inflows from commercial banks and similar commercial institutions and development banks and similar aid agencies.

4. **Other Receipts**

Included in other receipts are fees, fines, penalties and miscellaneous receipts.

5. **Other Payments**

Included in other payments are dividends, distributions paid, legal settlements of lawsuits and miscellaneous payments.

6. **Undrawn Borrowing Facilities**

(in thousands of currency units)	**200X**	**200X-1**
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.1.0X	X	X
Additional loan facility	X	X
Total available	X	X
Amount drawn	(X)	(X)
Facility closure/cancellations	(X)	(X)
Undrawn borrowing facilities at 31.12.0X.	X	X

(in thousands of currency units)	**200X**	**200X-1**
Undrawn Borrowing Facilities		
Commercial Financial Institutions	X	X
Development Banks and similar organizations	X	X
Total undrawn borrowing facilities	X	X

7. **Significant Entities**

Entity 200X	**Entity 200X-1**
Entity A	**Entity A**
Entity B	**Entity B**
Entity C	**Entity C**
Entity D	**Entity D**

8. **Authorization Date**

The financial statement was authorized for publication on XX *Month* 200X+1 by Mr. YY, the Treasurer of Country A.

9. **Original and Final Approved Budget and Comparison of Actual and Budget Amounts**

The approved budget is developed on the same accounting basis (cash basis), same classification basis, and for the same period (from 1 January 200X to 31 December 200X) as for the financial statements. It encompasses the same entities as the consolidated financial statement – these are identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences.

Alternative Note 9 when budget and financial statements are prepared on a different basis

9. Original and Final Approved Budget and Comparison of Actual and Budget Amounts

The budget is approved on a modified cash basis by functional classification. The approved budget covers the fiscal period from 1 January 200X to 31 December 200X and includes all entities within the general government sector. The general government sector includes all government departments – significant departments are included in the list of entities identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.

The budget and the accounting bases differ. The financial statements for the government are prepared on the cash basis using a classification based on the nature of expenses. The financial statements include all controlled entities, including commercial public sector entities for the fiscal period from 1 January 20XX to 31 December 20XX. The budget is approved on the modified cash basis by functional classification and deals only with the general government sector which excludes commercial public sector entities and certain other non-market government entities and activities.

The amounts in the statement of cash receipts and payments were adjusted to be consistent with the modified cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the statement of cash receipts and payments for timing differences associated with the continuing appropriation and differences in the entities covered (commercial public sector entities and other entities) were made to express the actual amounts on a comparable basis to the final approved budget.

A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total cash receipts and total cash payments reported in the statement of cash receipts and payments for the year ended 31 December 20XX is presented below.

	Total inflows	**Total outflows**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**
Basis Differences	X	X
Timing Differences	-	-
Entity Differences	X	X
Total Cash receipts	**X**	
Total Cash Payments		**X**

The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector and the financial statements include all entities controlled by the government. There is also a basis difference: the budget is prepared on a modified cash basis and the financial statements on the cash basis.

This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

10. Donations, Grants and Other Aid

Cash receipts during the period included donations, grants and other aid provided by individual multilateral and bilateral donor agencies and non-governmental organizations; co-operative financing facilities established by such organizations and donations from charities, corporations and private individuals.

The amount of donations, grants and other aid (XXX) does not include aid received during the reporting period in the form of the proceeds of loans. The proceeds of any aid received during the period in the form of loans are included in the amount of borrowings presented as a separate line item in the Statement of Receipts and Payments.

APPENDIX 1B – GOVERNMENT ENTITY B

(THIS ENTITY CONTROLS ITS OWN BANK ACCOUNT.)

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR ENTITY B

FOR YEAR ENDED 31 DECEMBER 200X

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Authorized allocations		X	X
Other receipts		X	X
Total receipts		**X**	**X**
PAYMENTS			
Wages, salaries and employee benefits		(X)	(X)
Rent		(X)	(X)
Capital Payments		(X)	(X)
Transfers	3	(X)	(X)
Total payments		**(X)**	**(X)**
Increase/(Decrease) in Cash		**X**	**X**
Cash at beginning of year	2	**X**	**X**
Increase/(Decrease) in Cash		**X**	**X**
Cash at end of year	*2*	**X**	**X**

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

(in thousands of currency units)	Note	200X Payments	200X-1 Payments
PAYMENTS			
Program I		(X)	(X)
Program II		(X)	(X)
Program III		(X)	(X)
Program IV		(X)	(X)
Other payments		(X)	(X)
Total payments		**(X)**	**(X)**

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The *accounting* policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for a public sector entity (Government Entity B). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government Entity B's principal activity is to provide [identify type of] services to constituents. The Entity controls its own bank account.

Presentation currency

The presentation currency is (currency of Country A).

2. Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents *comprise* balances with banks and investments in short-term money market instruments.

Appropriations and other cash receipts are deposited in the Entity's bank account. All borrowings are undertaken by a central finance entity.

Receipts from exchange transactions are deposited in trading fund accounts controlled by the Entity. They are *transferred* to consolidated revenue at year end.

Cash included in the *statement* of cash receipts and payments comprise the following amounts:

(in thousands of currency units)	**200X**	**200X-1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

3. Transfers

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of the entity.

4. Significant Entities

Entity 200X	**Entity 200X-1**
Entity X	X
Entity Y	X

5. Authorization Date

The financial statements were authorized for issue on XX *Month* 200X+1 by Mr. YY, Minister of XXXXX for Entity AB.

APPENDIX 1C – GOVERNMENT DEPARTMENT C

(THE GOVERNMENT OPERATES A CENTRALIZED SINGLE ACCOUNT SYSTEM)

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR DEPARTMENT C FOR YEAR ENDED 31 DECEMBER 200X

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Allocations/ Appropriations	2	X	X
Other receipts		X	X
Total receipts		**X**	**X**
PAYMENTS			
Wages, salaries and employee benefits		(X)	(X)
Rent		(X)	(X)
Capital Payments		(X)	(X)
Transfers	3	(X)	(X)
Total payments		**(X)**	**(X)**

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions or payments. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
PAYMENTS			
Program I		X	X
Program II		X	X
Program III		X	X
Program IV		X	X
Other payments		X	X
Total payments		**X**	**X**

NOTES TO THE FINANCIAL STATEMENTS

1. **Accounting Policies**

Basis of preparation

The financial statements have been prepared in accordance with the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for a public sector entity: Government Department C. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government Department C's principal activity is to provide (specify type of) services to constituents.

Government Department C does not operate its own bank account. The Government operates a centralized treasury function which manages the cash receipts and payments (expenditures) of the department during the financial year.

Presentation currency

The presentation currency is (currency of Country A).

2. **Amounts authorized for use by Department C**

Amounts authorized for use by Government Department C are managed through a central account administered by the Office of the Treasury on the Department's behalf. Amounts are deployed on behalf of Department C on request when supported by presentation of appropriate documentation and authorization. All borrowings are undertaken by a central finance entity.

Amounts authorized for use of the Department which are unexpended amounts at year end are transferred to consolidated revenue.

3. **Transfers**

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of Department AC.

4. **Authorization Date**

The financial statements were authorized on XX *Month* 200X+1 by Mr. YY, Minister of XXXXX for Government Department C.

Part 2: Financial Reporting under the Cash Basis of Accounting—Encouraged Additional Disclosures

This part of the Standard is not mandatory. It has been prepared to support those entities transitioning from the cash basis of accounting to the accrual basis of financial reporting and adoption of the accrual IPSAS. It sets out encouraged additional disclosures for reporting under the cash basis of accounting. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic type, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

Reporting entities should plot their path to adoption of the accrual IPSAS, and commence the process of building the information necessary to comply with those IPSAS consistent with the transition path that has been adopted.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

The encouraged disclosures are set out in italicized type. They are to be read in the context of the commentary paragraphs in Part 2 of this Standard, which are in plain type,

2.1 Encouraged Additional Disclosures

Definitions

2.1.1 *The following terms are used in this part of the Standard with the meanings specified:*

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Closing rate is the spot exchange rate at the reporting date.

Distributions to owners are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Terms defined in Part 1 of this Standard are used in this part of the Standard with their defined meaning.

Future Economic Benefits or Service Potential

2.1.2 Assets, including cash and other resources, provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential." Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Going Concern

2.1.3 *When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.*

2.1.4 The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:

(a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and

(b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of receipts or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the entity is a going concern.

2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether the government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and

(b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Administered Transactions

2.1.6 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.*

2.1.7 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

2.1.8 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.9 to 2.1.13 below provide guidance on the cash receipts, payments and balances that:

(a) May be controlled by a government or government entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and

(b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

Revenue Collection

2.1.9 Public sector entities may control cash or administer cash receipts or payments on behalf of the government or other governments or government entities. For example, a government Department of Taxation (or

revenue collection agency) may be established with its own bank account and provided with an appropriation to fund its operations. The operations of the Department will include administering certain aspects of the Taxation Act and may encompass the collection of taxes on behalf of the government.

2.1.10 A Department of Taxation can use cash appropriated to it and deposited in a bank account which it controls to achieve its operating objectives as mandated, and can exclude others from using or benefiting from that cash. In these cases, the Department will control the cash appropriated for its own use. However, the cash the Department collects on behalf of the government through its tax collection activities is usually deposited in a specified government trust fund or transferred to a government bank account administered by the Treasury or similar department. In these circumstances, the cash collected cannot be used to support achievement of the objectives of the Department of Taxation, or otherwise deployed at the discretion of the Department's management without specific appropriation or other authorization by the government or relevant body. Therefore, the cash collected is not controlled by the Department of Taxation and would not form part of the cash receipts or cash balances of the Department. As a consequence of a government decision, some of the amounts collected may be appropriated or otherwise allocated for use by the Department. However, it is the government's decision to authorize the expenditure of the funds by the Department of Taxation, rather than the collection of the cash, that gives rise to the control.

2.1.11 Similar circumstances may arise when one government, for example a state or local government, collects cash on behalf of another government (such as a national government). In these cases, the government is acting as an agent for others in the collection of cash. The cash that arises as a result of managing transactions as an agent for others would not usually be deposited in a bank account of the collection agency and therefore would not form part of the cash receipts, cash payments or cash balances of the reporting entity.

"Pass-through" Cash Flows

2.1.12 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed "pass-through" cash flows. In these cases, the entity will:

(a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;

(b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and

(c) Have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity's statement of cash receipts and payments in accordance with paragraph 1.3.4(a) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognized in the financial statements may be reported on a net basis.

Transfer Payments

2.1.13 Consistent with a government's objectives and with legislation or other authority, amounts appropriated to a government entity (a department, agency or similar) may include amounts to be transferred to third parties in respect of, for example, unemployment benefits, age or invalid pensions, family allowances and other social security and community benefit payments. In some cases, these amounts will pass through a bank

account controlled by the entity. Where this occurs, the entity will recognize the cash appropriated for transfer during the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

Disclosure of Major Classes of Cash Flows

2.1.14 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*

(a) *An analysis of total cash payments using a classification based on either the nature of the payments or their function within the entity, as appropriate; and*

(b) *Proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.*

2.1.15 The sub-classifications encouraged in paragraph 2.1.14(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.12 of Part 1 of this Standard. Where a different classification basis is adopted in the statement of cash receipts and payments, additional disaggregated disclosures reflecting the encouragement in paragraph 2.1.14(a) above is encouraged either as a separate statement or by way of note.

2.1.16 Cash payment items may be further sub-classified in order to enhance accountability by identifying the major purposes for which the payments are made. They may also be sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. An entity is encouraged to present this information in at least one of the following two ways.

2.1.17 The first method is referred to as the nature of payments method. Payments are aggregated in the statement of cash receipts and payments according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

	Cash payments
Wages and salaries	(X)
Transport costs	(X)
Capital acquisitions	(X)
Borrowing costs	(X)
Other	(X)
Total payments	(X)

2.1.18 The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

	Cash payments
Health services	(X)
Education services	(X)
Other	(X)

Total payments	(X)

2.1.19 Under this method, the cash payments associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions related to the provision of health services and education services. The entity would present cash payment line items for each of these functions.

2.1.20 Entities classifying cash payments by function are encouraged to disclose additional information on the nature of payments, including payments made for salaries and other employee benefits.

2.1.21 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from borrowings, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) The total amount of receipts from external and other assistance (possibly classified by the amount of grants, loans and other assistance provided, the significant classes of providers of that assistance and the amount provided);

(e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);

(f) Receipts from interest and dividends; and

(g) Receipts from gifts, donations, and other forms of assistance.

Related Party Disclosures

2.1.22 *An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20, "Related Party Disclosures."*

2.1.23 IPSAS 20, in the accrual based series of IPSAS, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities, Revenues, Expenses and Comparison with Budgets

2.1.24 *An entity is encouraged to disclose in the notes to the financial statements:*

(a) *Information about the assets, liabilities, revenues and expenses of the entity; and*

(b) *If the entity does not make publicly available its approved budget, a comparison with budgets.*

2.1.25 Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. They also incur costs and generate revenues during the reporting period which will result in cash flows of a future reporting period. Non-cash assets, liabilities, revenues and expenses will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, governments maintain records of, and

monitor and manage, their debt and other liabilities, their non-cash assets and the costs of their activities during the reporting period and the sources and amount of related revenues. The disclosure of information about assets, liabilities and the costs and revenues of particular programs and activities will enhance accountability and provide information useful for decision-making purposes and, therefore, is encouraged by this Standard.

2.1.26 Entities that make such disclosures are encouraged to identify revenues and expenses by nature or their function as appropriate to the entity's operations and assets and liabilities by type, for example, by classifying:

(a) Assets as receivables, investments or property plant and equipment; and

(b) Liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them as they transition to full adoption of the accrual IPSAS. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.32 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood.

2.1.27 Accrual basis IPSAS can provide useful guidance to entities disclosing additional information about assets, liabilities revenues and expense. Recommended Practice Guidelines will also provide guidance on disclosures that will assist users to better understand such matters as the financial position, financial performance and cash flows of the entity; its service performance objectives and achievements; and the sustainability of its finances.

Comparison with Budgets

2.1.28 Public sector entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorizing legislation. One of the objectives of financial reporting by public sector entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.7.1 to 1.7.46 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

(a) The preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and

(b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.29 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*

2.1.30 *Entities which adopt multi-period budgets are encouraged to provide additional note disclosures about the relationship between budget and actual amounts during the budget period.*

2.1.31 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to

such documents, particularly to link budget and actual data to non-financial budget data and service achievements.

2.1.32 As noted in paragraph 1.7.32 of this Standard, entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional disclosures about such matters as the relationship between the multi period budget and component annual budgets and actual amounts during the budget period.

Consolidated Financial Statements

Definitions

2.1.33 *The following terms are used in this Part of the Standard with the meanings specified:*

Consolidated financial statements are the financial statements of an economic entity in which the cash receipts, cash payments and cash balances of the controlling entity and its controlled entities are presented as that of a single entity.

Control of an entity: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Controlled entity is an entity that is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Economic entity means a controlling entity and its controlled entities.

Economic Entity

2.1.34 The term “economic entity” is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. Factors to be considered in assessing whether one entity controls another entity for financial reporting purpose are outlined in IPSAS 35, *Consolidated Financial Statements*.

2.1.35 An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

2.1.36 The determination of the economic entity will need to be made having regard to the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements. Such consolidated financial statements are commonly referred to as whole-of-government financial statements.

Scope of Consolidated Financial Statements

2.1.37 *A controlling entity, other than a controlling entity identified in paragraph 2.1.40 is encouraged to present consolidated financial statements which consolidates all its controlled entities, foreign and domestic by applying the following consolidation procedures:*

(a) *Cash balances and cash transactions between entities within the economic entity are eliminated in full;*

(b) *When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments are made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements; and*

(c) *Consolidated financial statements are prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.*

2.1.38 *When a controlling entity, other than a controlling entity identified in paragraph 2.1.40, does not present financial statements that consolidated all its controlled entities, it is encouraged to present financial statements that consolidate those of its controlled entities which represent the budget sector, general government sector or other economic entity that represents core government activities and responds to users information needs.*

2.1.39 *An economic entity uses the term "consolidated financial statements" to describe financial statements which comprises the controlling entity and its controlled entities as identified in paragraph 2.1.37. Financial statements of an economic entity which do not comprise the controlling entity and all its controlled entities as identified in paragraph 2.1.37, are identified by a term that is readily understood and clearly describes the classes or (characteristics) of entities that make up the economic entity.*

2.1.40 *The preparation of consolidated financial statements is unnecessary for a controlling entity that meets all the following conditions:*

(a) *It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;*

(b) *Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);*

(c) *It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and*

(d) *Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with the Cash Basis IPSAS or the accrual IPSAS.*

2.1.41 For accountability and decision-making purposes, users of the financial statements of a government or other public sector entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.

2.1.42 This Standard encourages governments and other public sector controlling entities to present financial statements which consolidate all controlled entities when users of such financial statements are likely to exist.

2.1.43 The consolidated financial statements of an economic entity that comprises a government and all its controlled entities will provide information about the cash resources controlled by the government directly and through its controlled entities at reporting date, and changes in those resources during the reporting period. The consolidated financial statements of other public sector economic entities such as, for example, a ministry of health or an education department, will provide information about the cash resources controlled by the ministry or department and changes in those resources during the reporting period.

2.1.44 The preparation of consolidated financial statements is not a cost-free process. Therefore, it is important that the benefits of preparing such statements justify the costs of their preparation. Preparation of consolidated financial statements by a controlling entity which is itself a controlled entity will often not be necessary in the circumstances identified in paragraph 2.1.40. This is because users' need for information presented in cash basis financial statements are often met by the consolidated financial statements of its controlling entity when such statements are prepared consistent with the requirement of the Cash Basis IPSAS or the accrual IPSAS, and the other circumstances identified in paragraph 2.1.40 apply. However, in other cases, consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions, there are legislated financial reporting requirements intended to address the information needs of such users.

2.1.45 In some cases, an entity which has the power to direct the relevant activities of another entity may not be able to benefit from the activities of that other entity - for example, when the other entity is subject to severe external long-term restrictions which prevent the entity with the power to direct its activities from benefiting from those activities. The cash flows and balances of such entities are not included in consolidated financial statements. This is because consolidated financial statements present information about the cash resources of the government or other public sector reporting entity that can be used to support the delivery of goods and services or otherwise benefit the reporting entity.

2.1.46 Paragraph 2.1.40(d) acknowledges that the ultimate or intermediate controlling entity of an entity which adopts the cash basis IPSAS may prepare and present consolidated financial statements on an accrual basis. While this may occur in some jurisdictions, the ultimate or intermediate controlling entity is likely to face significant practical issues in compiling, in respect of controlled entities that adopt the cash basis, the information necessary to comply with the accrual IPSAS.

Transitioning to Consolidated Financial Statements

2.1.47 Governments and other public sector entities may control a large number of entities including government departments, agencies and commercial public sector entities. The preparation of consolidated financial statements that consolidate a controlling entity and all its controlled entities can be a complex and resource intensive process. Some governments and other public sector entities face significant obstacles in the preparation and presentation of consolidated financial statements and may not be able to prepare fully consolidated financial statements in the short to medium term as they commence the transition to the full accrual basis. This may be because of capacity constraints that limit the ability of a government or other entity to collect and process data from all controlled entities in a timely fashion, because of legislative or other requirements to present financial statements for a subgroup of controlled entities rather than for all controlled entities, or for other reasons.

2.1.48 As governments and other public sector entities that report on the cash basis transition to the accrual basis of financial reporting and develop the capacity, systems and the legislative frameworks to overcome obstacles to consolidation, the potential to include in cash basis financial statements information about additional controlled entities will increase. For governments, the preparation of financial statements that report information about the cash receipts, cash payments and cash balances of an economic entity that comprises the controlled entities that represents, for example, the budget sector, the general government sector or other representation of core government activities will provide information about key sectors of government that is useful to users for accountability and decision-making purposes. This Standard encourages a controlling entity that does not present fully consolidated financial statements to present financial statements for such an economic entity as an interim step in the transition to the accrual basis of financial reporting and the presentation of fully consolidated financial statements in accordance with the accrual IPSAS. Government agencies which do not consolidate all their controlled entities are also

encouraged to present financial statements which consolidate controlled entities which represent a subgroup of their activities useful to users for accountability and decision-making purposes.

2.1.49 The term "consolidated financial statements" is used to describe financial statements that present a "full consolidation" of all controlled entities as identified in paragraph 2.1.37 of this Standard. A term other than "consolidated financial statements" is to be used to describe financial statements that present information about an economic entity that does not include the controlling entity and all its controlled entities. That term is to be readily understood and to clearly describe the classes or (characteristics) of entities that make up the economic entity. The selection of an appropriate term is a matter of professional judgement. That judgment should be exercised in the context of the qualitative characteristics of financial reporting including that it be understandable and a faithful representation of the economic entity presented. For national, state/provincial or local governments that prepare such financial statements, terms such as, for example, the financial statements of the budget sector or the general government sector may be appropriate.

Consolidation Procedures

2.1.50 The consolidation procedures outlined in paragraph 2.1.37 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit, as encouraged by this Standard.

2.1.51 The consolidated financial statements encouraged by this Standard reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a government department may sell a physical asset to another government department. Because the net cash effect on the whole-of-government reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the whole-of-government reporting entity. A government entity may hold funds with a public sector financial institution. These balances would be eliminated at the whole-of-government level because they represent balances within the economic entity. Similarly, a commercial public sector entity operating overseas may make a payment to a government department which remains in transit at the reporting date. In this case, failure to eliminate the transaction in the preparation of whole-of-government consolidated financial statements would result in understating the cash balance of the whole-of-government economic entity and overstating its cash payments. However, the transaction would not be eliminated in financial statements prepared for a group entity that, for example, represented a general government sector which excluded the commercial public sector entity.

2.1.52 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

Consolidation Disclosures

2.1.53 *An entity is encouraged to disclose in the notes to the consolidated financial statements of an economic entity prepared in accordance with the encouragements in paragraph 2.1.37:*

(a) *A listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity);*

(b) *The reasons for not consolidating a controlled entity;*

(c) *The proportion of ownership interest in controlled entities and a description of how that ownership interest has been determined; and*

(d) *Where applicable, the factors considered in determining that the controlling entity:*

(i) *Controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities), together with an explanation of how control exists; and*

(ii) *Does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities).*

2.1.54 *An entity which presents financial statements for an economic entity which consolidates some but not all controlled entities as is encouraged in paragraph 2.1.37, is encouraged to disclose in the notes to those financial statements the disclosures encouraged in paragraph 2.1.53 together with:*

(a) *A description of the classes (or characteristics) of controlled entities that are included in, and excluded from, the group financial statements together with an explanation of the reason for the exclusion of any classes from the group accounts; and*

(b) *A listing of significant entities that have been added to, or removed from, those included in the group financial statements since presentation of the previous period's financial statements.*

2.1.55 *A controlling entity which does not present a consolidated financial statement as encouraged in paragraph 2.1.37 is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the method used to account for controlled entities in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes a consolidated financial statement.*

2.1.56 The disclosures encouraged in paragraphs 2.1.53 and 2.1.54 will provide users with information about the composition and key features of fully consolidated financial statements prepared in accordance with the encouragements in paragraph 2.1.37, and financial statements that consolidate a subset of its controlled entities in accordance with the encouragements in paragraph 2.1.38. The disclosures encouraged in paragraph 2.1.55 will enable users to determine whether a controlling entity prepares consolidated financial statements and, if not, the method used to account for controlled entities.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.57 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*

2.1.58 *An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*

(a) *The total purchase or disposal consideration (including cash or other assets);*

(b) *The portion of the purchase or disposal consideration discharged by means of cash; and*

(c) *The amount of cash in the controlled entity or operating unit acquired or disposed of.*

2.1.59 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.

2.1.60 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.

2.1.61 Paragraph 2.1.24 encourages the disclosure of assets, liabilities, revenues and expenses of the entity. Assets, liabilities, revenues and expenses other than cash or cash flows of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarized by each major category.

Consistent with the requirement of paragraph 1.3.32 of Part 1 of this Standard, where such disclosure is made, the assets, liabilities, revenues and expenses should be clearly identified and the basis on which they are measured and recognized explained.

Joint Arrangements

2.1.62 *An entity is encouraged to make disclosures about joint arrangements which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at the reporting date.*

2.1.63 A joint arrangement is an arrangement of which two or more parties have joint control. Many public sector entities establish joint arrangements to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint arrangement are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:

(a) As cash payments, the cash expended in the acquisition of an interest in a joint arrangement and in the ongoing operations of the joint arrangement; and

(b) As cash receipts, the cash received from the joint arrangement.

Disclosures about joint arrangements may include a listing and description of interests in significant joint arrangements. International Public Sector Accounting Standards IPSAS 36, *Investments in Associates and Joint Ventures* and IPSAS 37, *Joint Arrangements* in the accrual based series of IPSAS provides guidance on the different forms and structures that joint arrangements may take and potential additional disclosures that might be made. The definition and explanation of “control” in IPSAS 35 will need to be considered in determining whether an entity is an “associate” and whether an arrangement is a “joint arrangement“ as defined in IPSAS 36 and IPSAS 37.

Financial Reporting in Hyperinflationary Economies

2.1.64 In a hyperinflationary economy, the presentation of the financial statements in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

2.1.65 This Standard does not identify an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with the encouragements in this Standard would become necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

(a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

(b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

(c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;

(d) Interest rates, wages and prices are linked to a price index; and

(e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

The Restatement of Financial Statements

2.1.66 *An entity that reports in the currency of a hyperinflationary economy is encouraged to:*

(a) *Restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date;*

(b) *Restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and*

(c) *Use a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.*

2.1.67 *The entity is encouraged to make the following disclosures:*

(a) *The fact that the statement of cash receipts and payments and other financial statements, and the corresponding figures for previous periods, have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and*

(b) *The identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period.*

2.1.68 Prices change over time as the result of various political, economic and social forces. Specific forces such as changes in supply and demand, and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general economic forces may result in changes in the general level of prices and therefore in the general purchasing power of money.

2.1.69 In a hyperinflationary economy, the usefulness of financial statements is substantially increased if they are expressed in terms of the measuring unit current at the reporting date. As a result, the treatments and disclosures in paragraphs 2.1.66 and 2.1.67 above are encouraged. Presentation of this information as the primary presentation rather than as a supplement to financial statements which have not been restated is encouraged. Separate presentation of the statement of cash receipts and payments and other financial statements before restatement is discouraged.

2.1.70 All items in the statement of cash receipts and payments will be expressed in terms of the measuring unit current at the reporting date. Therefore, all amounts, including any payments by third parties disclosed on the face of the statement of cash receipts and payments or in other financial statements, would be restated by applying the change in the general price index from the dates when the payments and receipts were initially recorded.

2.1.71 Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, this Standard encourages restatement of the budgetary information in accordance with this Standard.

Comparative Information

2.1.72 If comparisons with previous periods are to be meaningful, comparative information for the previous reporting period will be restated by applying a general price index so that the comparative financial statements are presented in terms of the measurement unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measurement unit current at the end of the reporting period.

Consolidated Financial Statements

2.1.73 A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. If the statement of cash receipts and

payments and other financial statements are to be prepared on a consistent basis, the financial statements of any such controlled entity will be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates.

2.1.74 If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statement.

Selection and Use of the General Price Index

2.1.75 The restatement of financial statements in accordance with the approach encouraged by this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

2.1.76 The disclosures encouraged by this Standard are intended to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Payments by Third Parties on Behalf of the Entity

2.1.77 *When during the reporting period a reporting entity has been formally advised that payments have been made to directly settle its obligations or purchase goods and services for its benefit by third parties, or the entity has otherwise verified that such payments have been made, the entity is encouraged to disclose in notes to the financial statements:*

(a) *Total payments made by such third parties; and*

(b) *A sub-classification of the total amount of such payments using a classification basis appropriate to the entity's operation.*

2.1.78 In some cases, third parties purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a national government may fund the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring and transferring to the other government the necessary supplies during the period. Similarly, a national government or independent aid agency may pay a construction company directly for building a road for another government rather than providing the funds directly to the government itself. These payments may be made by way of a grant, donation or other form of aid, or as a loan which is to be repaid. In these cases, the provincial or municipal government does not receive cash (including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute "cash" as defined in this Standard. However, the recipient government benefits from the cash payments being made on its behalf.

2.1.79 The disclosure of information about the amount, and the classes of payments made by third parties (whether by nature, function or both) will provide additional information useful for accountability and decision-making purposes. In some cases, an entity may not have been formally advised or otherwise be aware of third party payments made on its behalf during the reporting period, or may be unable to verify that an expected payment has occurred. If an entity cannot have confidence that the amount of third party payments disclosed is a faithful representation of all such payments made on behalf of the entity during the period, the notes should advise users that such disclosures may not encompass all such third party payments.

2.1.80 Paragraph 2.1.77 encourages the disclosure of the total amount of third party payments made during the reporting period and the major classes of such payments. Third party payments will encompass amounts

defined as external assistance and other assistance in paragraph 2.1.82 of this Standard. Paragraph 2.1.90(b) encourages the disclosure of the amount of external assistance provided to an entity in the form of third party payments. Paragraph 2.1.91 encourages that such disclosures also be made about other assistance where practicable.

2.1.81 The sub-classifications (or classes) of third party payments which may be disclosed in accordance with paragraphs 2.1.77(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17 of Part 1 of this Standard.

Recipients of External and Other Assistance

Definitions

2.1.82 *The following terms are used in this Standard with the meaning specified:*

Assistance means external assistance and other assistance.

Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

Non-Governmental Organizations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organizations or individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other forms of assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.

Other Assistance means resources provided by non-governmental organizations (NGOs) and gifts and donations or other forms of assistance voluntarily provided by individuals and private sector organizations which the recipient can use or otherwise benefit from in pursuit of its objectives. Other assistance does not include official resources, taxes, fines and fees, resources provided in an exchange transaction or resources provided by the government or agencies of a government of the same nation as the recipient.

Assistance

2.1.83 "Assistance" is defined broadly in this Standard to encompass "external assistance" and "other assistance". Key features of external assistance and other assistance are outlined below.

External assistance

2.1.84 External assistance is defined as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Different organizations may use different terminology for external assistance or classes of external assistance. For example, some organizations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However,

in other cases, the terminology may be substantially different. In these cases it will be necessary to exercise professional judgment in determining whether the resources provided should be classified as external assistance.

2.1.85 Official resources are resources provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation and assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement, does not satisfy the definition of official resources and, therefore, is not external assistance.

2.1.86 External assistance agreements may provide for the entity to:

(a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;

(b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or

(c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External assistance agreements may also include the provision of goods or services to the recipient.

Other Assistance

2.1.87 Other assistance is defined as resources provided by NGO's and assistance that is voluntarily provided by, for example, individuals and charitable and other organizations. Taxes and other resources compulsorily paid or payable to public sector entities in accordance with laws or regulation, fines or other penalties imposed for breaches of laws or regulation, and fees for services provided by, or on behalf of, public sector entities are not other assistance as defined in paragraph 2.1.82. Similarly, resources provided in exchange transactions and transfers of resources between governments within the same nation are not classified as other assistance.

2.1.88 In most cases it will be clear whether resources are provided voluntarily and whether their intent is to provide assistance for purposes of, for example, emergency relief or to assist the entity in achieving economic development or welfare objectives, or for other purposes. However, in some cases, it will be necessary to exercise professional judgment in determining whether the resources provided should be classified as other assistance.

2.1.89 NGOs are foreign or national agencies established independent of control by any government. In some rare cases, it may not be clear whether the donor organization is a bilateral or multilateral external assistance agency or a NGO, and therefore independent of control by any government. Where such a donor organization provides, or commits to provide, assistance under the terms of a binding agreement, the distinction between official resources as defined in this Standard and resources provided by a NGO may become blurred. In these cases, professional judgment will need to be exercised to determine whether the assistance received satisfies the definition of external assistance or other assistance.

External Assistance Received

2.1.90 *An entity is encouraged to disclose separately in notes to the financial statements:*

(a) *The total amount of external assistance received in cash during the period unless disclosed as a separate class of cash receipt on the face of the statement of cash receipts and payments;*

(b) *The total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity when advised by the third party or otherwise verified by the recipient;*

(c) *The total amount of external assistance received during the period as loans and the total amount received as grants;*

(d) *The significant classes of providers of external assistance and the amount provided;*

(e) *By significant class and amount, the purposes for which external assistance was received and used during the reporting period showing separately amounts provided by way of loans and grants; and*

(f) *The balance of undrawn external assistance loans and grants available at reporting date to fund future operations when the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately:*

(i) *Total external assistance loans;*

(ii) *Total external assistance grants; and*

(iii) *The purposes for which the undrawn loan assistance and undrawn grant assistance may be used.*

Other Assistance Received

2.1.91 *Where practicable, an entity is encouraged to apply to other assistance received, the disclosures identified in paragraph 2.1.90 above.*

External Assistance and Other Assistance Received

2.1.92 Disclosure of the total amount of external assistance received and, separately, other assistance received in the form of cash and in the form of third party payments made on behalf of the entity can provide useful information about the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance and other assistance, and the form of that assistance – whether as cash or other benefit. The disclosure of external assistance and other assistance received in the form of payments made by third parties is encouraged when the entity has been formally advised, or otherwise verified, that such payments have been made during the reporting period.

2.1.93 Disclosure of the amount of external assistance and other assistance received by way of loan or grant will enable users to identify whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.94 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organizations, NGOs, national assistance organizations or other major classes as appropriate for the reporting entity will identify the extent of the entity's dependence on particular classes of providers, and will be relevant to an assessment of the sustainability of the assistance.

2.1.95 An entity may receive external assistance for many purposes including assistance to support its:

(a) Economic development or welfare objectives, often termed development assistance;

(b) Emergency relief objectives, often termed emergency assistance;

(c) Balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;

(d) Military and/or defense objectives, often termed military assistance; and

(e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.

2.1.96 Other assistance may also be provided for some of these purposes such as, for example, emergency relief and to support an entity's welfare objectives.

2.1.97 Disclosure by significant class of the purposes for which external assistance and other assistance was provided and used during the reporting period will further enhance the entity's accountability for its use of assistance received.

2.1.98 The amount of external assistance and assistance from NGO's and other sources currently committed under a binding agreement but not yet drawn may be significant. In some cases, the amount of assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. The disclosure of undrawn balances of external assistance and other assistance in these circumstances will provide information about the extent to which assistance made available to the entity has been drawn on during the reporting period and the amount of committed external and other assistance is available to support the ongoing development of particular projects.

2.1.99 In some cases, a donor may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date. In these cases, disclosure of the undrawn amounts is not encouraged by paragraph 2.1.90(f). In some cases, professional judgment may need to be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance or other assistance is highly likely.

Goods and Services Received

2.1.100 *An entity is encouraged to disclose separately in the notes to the financial statements the value of assistance received during the period in the form of goods or service, and the basis on which that value is determined.*

2.1.101 Significant resources may be received as assistance in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement or by, for example, NGO's or private sector benefactors. It will also occur when food aid is provided to a government for distribution to its citizens as emergency relief under an external assistance agreement or by NGO's or other donors. For some recipients, goods or services may be the major form in which assistance is received.

2.1.102 Disclosure of the value of assistance received as goods and services during the reporting period will assist readers of the financial statements to better understand the full extent of assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.

2.1.103 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by an external assistance agency or other donor. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of assistance in the form of goods or services is disclosed, paragraph 2.1.100 encourages the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value – that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

2.2 Governments and Other Public Sector Entities Completing the Transition to the Accrual Basis of Financial Reporting and Adoption of Accrual IPSAS

Presentation of the Statement of Cash Receipts and Payments

2.2.1 *An entity which is completing its transition to the accrual basis of financial reporting and adoption of accrual IPSAS is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard 2 (IPSAS 2), Cash Flow Statements.*

2.2.2 As entities transition to the accrual basis of financial reporting they will need to progressively build the information and systems necessary to comply with each accrual IPSAS on issue prior to the formal adoption of the accrual IPSAS. The presentation of information in a format that replicates as far as possible that adopted by the accrual IPSAS will assist the transition process.

2.2.3 IPSAS 2 provides guidance on classifying cash flows as operating, financing and investing and includes requirements for preparing a cash flow statement which reports these classes separately on the face of the statement. A summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under this Standard is included in Appendix 3. Part 2 of this Standard encourages disclosure of information additional to that required by IPSAS 2. Entities which adopt the format of IPSAS 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

Consolidated Financial Statements – The Economic Entity

2.2.4 This Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities in accordance with generally accepted consolidation processes, and identifies some circumstances in which this may not be necessary. These circumstances reflect those in IPSAS 35, *Consolidated Financial Statements*. However, IPSAS 35 includes additional exemptions from the requirement to prepare consolidated financial statements for controlling entities that are investment entities and measure their controlled entities at fair value through surplus or deficit. This exemption is not applicable to controlling entities that are investment entities and apply the Cash Basis IPSAS.

2.2.5 When financial statements which consolidate all controlled entities are not presented, this Standard encourages the presentation of financial statements which present information about an economic entity that comprises subgroups of controlled entities such as those reflecting the budget sector or the general government sector or other representation of core government activities. While accrual IPSAS do not prohibit the presentation of information about such economic entities, they cannot be presented as an alternative to the full consolidation of all controlled entities as prescribed in IPSAS 35.

2.2.6 Entities completing the transition to the accrual basis of financial reporting and adoption of the accrual IPSAS will need to be aware of these differences in the consolidation requirements of the accrual and cash basis IPSAS.

Required and Encouraged Disclosures under the Cash Basis IPSAS

2.2.7 The requirements and encouragements of this Standard are not inconsistent with the requirements and encouragements of the equivalent accrual IPSAS to the extent they apply to financial reporting under the cash basis. However, in some cases this Standard encourages disclosures that are not required by the accrual IPSAS. This occurs in respect of, for example, encouraged disclosures about such matters as third party payments and external and other assistance. These disclosures are encouraged in this Standard to provide additional information useful in assessing how the entity is resourced. Such information is useful to all users of general purpose financial statements for accountability and decision-making purposes. It may also be relevant to the "special purpose" needs of, for example, providers of external and other assistance for information useful in monitoring the provision and use of assistance provided to the entity.

IPSAS 33—First-Time Adoption of Accrual Basis IPSAS

2.2.8 IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* identifies transitional provisions that provide entities with relief from adoption of certain of the requirements of accrual IPSAS for three (3) years from the date of first adoption of accrual IPSAS. IPSAS 33 provides that on the date of adoption of IPSAS, a first-time adopter may elect to adopt one of more of the exemptions included in IPSAS 33 and, subject to the nature of the exemptions adopted, identify its financial statements as either:

(a) *Transitional IPSAS financial statements*, when it adopts exemptions identified in IPSAS 33 as "Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS"; or

(b) *Financial statements that comply with the accrual IPSAS*, when it adopts other of the exemptions identified in IPSAS 33. That is the exemptions identified in IPSAS 33 as "Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS"[3].

2.2.9 Appendix A of IPSAS 33 lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS, and illustrates whether fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS will be affected.

[3] IPSAS 33, Appendix A lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS and illustrates whether fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS will be affected.

Basis for Conclusions – Cash Basis IPSAS Part 2

This Basis for Conclusions accompanies, but is not part of the IPSAS, Financial Reporting under the Cash Basis of Accounting.

Introduction — Removing obstacles to adoption of this IPSAS

BC1 The requirements for preparation of consolidated financial statements and disclosure of information about external assistance and third party payments that were previously included in Part 1 of the Cash Basis IPSAS (2007)(proved to be major obstacles to adoption of this Standard. To remove those obstacles these requirements were revised and recast as encouragements in Part 2 of the Standard.

BC2 In the process of recasting these requirements as encouragements, additional amendments were made to strengthen the role of Part 2 of the Standard in supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS.

Consolidation

BC3 Part 2 of the Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities. It also encourages controlling entities that do not consolidate all controlled entities, to prepare financial statements for an economic entity that represents the budget sector, the general government sector or other representation of core government activities as an interim step in the transition to the accrual basis of financial reporting and adoption of accrual IPSAS. Such financial statements will provide information useful to users for accountability and decision-making purposes and support an orderly and useful transition to full consolidation as required by the accrual IPSAS. The encouragement to present financial statements for an economic entity that comprises the controlled entities that represent the general government sector is also consistent with the IPSASB's strategic objective of supporting the convergence of public sector accounting standards and statistical bases of financial reporting where appropriate.

BC4 To further support those entities transitioning to the accrual basis, key definitions and encouraged disclosures were revised where necessary to ensure that they did not conflict with IPSAS 34, *Separate Financial Statements*; IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangement*s and IPSAS 38, *Disclosure of Interests in Other Entities*.

External assistance

BC5 Requirements to disclose information about external assistance that were included in Part 1 of the Cash Basis IPSAS (2007) have been revised and recast as encouragements in Part 2 of the Standard. In addition, disclosures that were previously required or encouraged have been reduced to focus primarily on encouragements to disclose information about external assistance received and used during the reporting period in the form of cash and third party payments, and the amount of undrawn assistance available to the reporting entity as at reporting date. This revised Cash Basis IPSAS (2017) also encourages the disclose of information about such matters as significant terms and conditions of external assistance agreements, terms and conditions that have not been complied with and repayment terms and conditions of outstanding external assistance debt be removed from the Standard. Where practical, Part 2 of the Standard encourages a reporting entity to make disclosures about assistance provided to the entity in the form of cash and third party payments by, for example, NGOs and public and private sector donors.

BC6 The IPSASB is of the view that the encouraged disclosures provide information useful for accountability and decision-making purposes, are more likely to be achievable and better reflect the general purpose nature intended for the cash basis financial statements.

BC7 Part 2 of the Cash Basis IPSAS (2007) encouraged the disclosure of the value of goods and services received during the period in the form of external assistance. Part 1 of the Cash Basis IPSAS (2007) required that where an entity chose to disclose the value of external assistance received during the period in the form of goods and services it should also disclose the basis on which that value is determined. Such disclosures were encouraged, but not required, for assistance received from NGO's. Some constituents sought clarification of the relationship of these requirements and encouragements to those relating to third party payments. Some constituents also expressed concern that the disclosure of the basis on which the value of goods and services was determined was required when those goods and services were received as official resources under external assistance agreements, but only encouraged in other circumstances. The IPSASB responded to these concerns. In this revised Cash Basis IPSAS (2017) the relationship between external assistance and third party payments has been clarified and the requirement to disclose the basis of valuation of goods and services received has been recast as an encouragement in Part 2 of the IPSAS and broadened to apply to external assistance and other assistance received in the form of goods and services.

Third Party payments

BC8 Part 1 of the Cash Basis IPSAS (2007) required the disclosure of certain information about payments made by third parties in a separate column on the face of the statement of cash receipts and payments. This revised Cash Basis IPSAS (2017) recasts this as an encouragement to include such disclosures in notes to the financial statements, rather than on the face of the financial statements. The recasting of the requirement to disclose information about third party payments as an encouragement was made because of concerns that information necessary to fully satisfy the requirements or encouragement would not be available to recipients on a timely basis. In such circumstances, the information included in the financial statements was likely to be incomplete and the potential for misinterpretation of its usefulness for accountability and decision-making purposes did not justify its disclosure in a separate column on the face of the financial statements.

BC9 This revised Cash Basis IPSAS (2017) also makes changes to Part 1 to include an additional explanation of single account type arrangements to reflect the IPSASB's view that such arrangements do not give rise to third party payments. This explanation narrows the circumstances in which third party payments may arise.

Amendments to support Entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS

BC10 This revised Cash Basis IPSAS (2017) makes refinements to the encouragements in Part 2 to reinforce the role of the Standard in supporting governments and other public sector entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS. These refinements include:

(a) Updated definitions and encouraged disclosures to ensure that they are not contrary to the equivalent accrual IPSAS unless intended to be so to reflect the cash basis focus in this Standard; and

(b) Outlining the role of IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector* Accounting *Standards (IPSAS)* in providing relief from complying with certain of the requirements of accrual IPSAS for a 3-year period from first adoption.

BC11 Consistent with the role of Part 2 of the Standard in supporting entities transitioning to the accrual basis of financial reporting and adoption of the accrual IPSAS, the definitions of assets, liabilities, revenues and expenses included in this Standard are the same as those included in the accrual IPSAS. While encompassing essentially the same characteristics, the definitions of assets, liabilities, revenues and expenses in the "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities" (The Conceptual Framework) have been further developed to clarify their key characteristics. The accrual IPSAS have not yet been updated to reflect the definitions of assets, liabilities, revenues and expenses in the Conceptual Framework and, consequently, the definitions in this Standard do not reflect those in the Framework.

Extraordinary Items

BC12 This revised Cash Basis IPSAS (2017) no longer encourages the disclosure of information about extraordinary items and supporting definitions and explanations. IPSAS 1, *Presentation of Financial Statements* (issued in 2000), which was on issues when the previous Cash Basis IPSAS was issued, required certain disclosures about extraordinary items to be made on the face of the financial statements. IPSAS 2, *Cash Flow Statements* (issued in 2000) and IPSAS 3, *Accounting Policies, Changes in Accounting Estimates* and *Errors* (issued in 2000) also required separate disclosure of extraordinary items. These requirements have now been removed from the accrual IPSAS. The accrual IPSAS do not require, encourage or prohibit disclosure of extraordinary items. These amendments were made to align Part 2 of this Standard with the accrual IPSAS.

Appendix 2

Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

This appendix is illustrative only. The purpose of the appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.

Extract from notes to the financial statements of Government Entity ABC

Administered Transactions (paragraph 2.1.6)

Administered transactions comprise cash flows resulting from transactions administered by the Entity as an agent on behalf of the government and specific government bodies. All cash collected in the capacity of an agent is deposited in the consolidated revenue fund and/or trust account (name of account), as appropriate. These accounts are not controlled by the Entity and the cash deposited in them cannot be used by the Entity without specific authorization by the relevant government body.

(in thousands of currency units)	**Nature of Transaction**	**200X**	**200X-1**
Cash collected on behalf of			
The Executive/Crown	Collection of taxation	X	X
Agency EF	Collection of utility service fee		
		X	X
		X	X
Cash transferred to respective entities		(X)	(X)
		-	-

Related Party Transactions (paragraph 2.1.22)

The key management personnel (as defined by International Public Sector Accounting Standard IPSAS 20, *Related Party Disclosures*) of Entity ABC are the Minister, the members of the governing body and the members of the senior management group. The governing body consists of members appointed by Government A. The chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Entity ABC. The aggregate remuneration of members of the governing body and the number of members determined on a full time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration AX million.

Number of persons AY persons.

The senior management group consists of the Entity's chief executive officer, the chief financial officer, and the heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration AP millions.

Number of persons AQ persons.

Government X: Consolidated Statement of Cash Receipts and Payments of Government X and extracts from notes to the financial statements of Government X

Government X: Statement of Consolidated Cash Receipts and Payments:

Year Ended 31 December 200X *(Paragraph 2.1.37)*

(Receipts)

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Taxation			
Income tax		X	X
Value-added tax		X	X
Property tax		X	X
Other taxes		X	X
		X	X
External and Other Assistance	F	X	X
Borrowings			
Proceeds from Commercial Institutions		X	
Development Banks and similar organizations		X	
Capital Receipts			
Proceeds from disposal of plant and equipment		X	X
Proceeds from disposal of Financial Instruments		X	X
Trading Activities			
Receipts from trading activities		X	X
Other receipts		X	X
Total receipts		**X**	**X**

Government X: Statement of Consolidated Cash Receipts and Payments:

Year Ended 31 December 200X

(*Payments)*

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
PAYMENTS			
Operations			
Wages, salaries and employee benefits		(X)	(X)
Supplies and consumables		(X)	(X)
		(X)	(X)
Transfers			
Grants		(X)	(X)
Other transfer payments		(X)	(X)
		(X)	(X)
Capital Payments			
Purchase/construct plant and equipment		(X)	(X)
Purchase of financial instruments		(X)	(X)
		(X)	(X)
Loan and Interest Repayments			
Repayment of borrowings		(X)	(X)
Interest payments		(X)	(X)
		(X)	(X)
Other payments		(X)	(X)
Total payments		**(X)**	**(X)**
Increase/(Decrease) Cash		**X**	**X**
Cash at beginning of year		**X**	**X**
Increase/(Decrease) Cash		**X**	**X**
Cash at end of year		**X**	**X**

Notes to consolidated financial statements of Government X

(Extracts illustrating encouraged disclosures)

Note A: Controlled Entities *(paragraph 2.1.53)*

Entity XYZ has rights to variable benefits from its involvement with controlled entities and has the ability to affect the nature or amount of those benefits through its power over those entities. All controlled entities are included in the consolidated financial statements. The significant controlled entities are identified below.

Significant Controlled Entities	Jurisdiction
Entity A	
Entity B	
Entity C	X
Entity D	
Entity E	
Entity F	
Entity G	
Entity H	X
Entity I	
Entity J	

Control of government entities arises by way of statute or other enabling legislation. Control of commercial public sector entities (commercial entities) arises by way of statute and in the case of commercial entities C and D, by way of ownership interest. The Government retains control of commercial entity J through legislative authority although the majority of the equity of commercial entity J has been sold to private investors.

Entity	Ownership Interest (%)	Voting Power (%)
Entity C	XX	XX
Entity D	XX	XX
Entity J	XX	XX

(Extract from notes to consolidated financial statements of Government X continued)

Acquisitions of Controlled Entities and Operating Units *(paragraphs 2.1.57 and 2.1.58)*

Names of Entities acquired	Proportion of shares acquired %	Purchase consideration (in thousands of currency units)	Cash portion of purchase consideration (in thousands of currency units)	Cash balances acquired (in thousands of currency units)
Entity C	XX	X	X	X
Entity D	XX	X	X	X
		X	X	X

Disposals of Controlled Entities and Other Operating Units

Name of Entities disposed of	Proportion of shares disposed of %	Disposal consideration (in thousands of currency units)	Cash portion of disposal consideration (in thousands of currency units)	Cash balance disposed of (in thousands of currency units)
Enterprise H	XX	X	X	X

Note B: Significant Joint Arrangements *(paragraph 2.1.62)*

Name of Joint Arrangement	Principal Activity	Output Interest	
		200X %	200X-1 %
Regional Water Board	Water provision	XX	XX
Regional Electricity Board	Provision of utility services	XX	XX

(Extract from notes to consolidated financial statements of Government X Continued)

Note C: Assets, Liabilities, Revenues and Expenses *(paragraph 2.1.24(a))*

Property, plant and equipment

The Government commenced the process of identifying and valuing major classes of its property, plant and equipment. The assets are stated at historical cost or valuation. The valuations were performed by an independent professional valuer. The valuation bases used for each class of assets are as follows:

Plant and Equipment	Cost
Land	Current Value
Buildings	Cost or Market Value

(in thousands of currency units)	200X	200X-1
Plant and equipment	X	X
Land and buildings		
Property within jurisdiction (country, state, city) limits	X	X
Buildings at cost	X	X
Buildings at valuation	X	X
	X	X

Revenue and Expense

The Government continues to build data on revenues and expenses of the reporting period as it transitions to the accrual basis of financial reporting.

The Government maintains records of property taxes due and payable at reporting date based on property values as assessed by the revenue office on a three year rolling basis, It also estimates amounts of goods and services tax and [*identify industry*] royalties accruing based on sales and production returns and reports.

It is developing a statistical model for measuring income tax revenue on an accruals basis which draws on taxation statistics compiled since 200X-3 as well as other information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended December 31, 20XX.

(*Extract from notes to consolidated financial statements of Government X Continued)*

Accrued expenses comprise amounts due and payable for wages, salaries and rental and other costs due and payable as at reporting date.

(in thousands of currency units)	**200X**	**200X-1**
Accrued Revenue	X	X
Property taxes	X	X
Goods and services tax	X	X
Royalties	X	X
Accrued Expenses		
Wages and salaries	X	X
Rent	X	X
Other	X	X

Borrowings

The borrowings of the Government are listed below:

(in thousands of currency units)	**200X**	**200X-1**
Balance at beginning of year	X	X
PROCEEDS		
Domestic Commercial Institution	X	X
Offshore Commercial Institution	X	X
Development Banks and Similar Lending Agencies	X	X
Total borrowings	**X**	**X**

(in thousands of currency units)	200X	200X-1
REPAYMENTS		
Domestic Commercial Institution	(X)	(X)
Offshore Commercial Institution	(X)	(X)
Development Banks and Similar Lending Agencies	(X)	(X)
Total repayments	**(X)**	**(X)**
Balance at end of year	X	X

(Extract from notes to consolidated financial statements of Government X continued)

Note D: Comparison with Budget when the entity does not make its budget publicly available *(paragraph 2.1.24(b))*

(in thousands of currency units)	Actual	Budget	Variance
RECEIPTS			
Taxation			
Income tax	X	X	X
Value-added tax	X	X	(X)
Property tax	X	X	X
Other taxes	X	X	(X)
	X	X	X
Assistance – Aid Agreements			
International agencies	X	X	-
Other	X	X	-
	X	X	-
Borrowings			
Proceeds from borrowings	X	X	(X)
Capital Receipts			
Proceeds from disposal of plant and equipment	X	X	X
Trading Activities			
Receipts from trading activities	X	X	X
Other receipts	X	X	X
Total receipts	**X**	**X**	**X**
PAYMENTS			
Operations			

(in thousands of currency units)	Actual	Budget	Variance
Wages, salaries and employee benefits	(X)	(X)	(X)
Supplies and consumables	(X)	(X)	X
	(X)	(X)	(X)
Transfers			
Grants	(X)	(X)	-
Other transfers	(X)	(X)	-
	(X)	(X)	-
Capital Payments			
Purchase/construction of plant and equipment	(X)	(X)	(X)
Purchase of financial instruments	(X)	(X)	-
	(X)	(X)	(X)
Loan and Interest Repayments			
Repayment of borrowings	(X)	(X)	-
Interest payments	(X)	(X)	-
	(X)	(X)	-
	(X)	(X)	X
Other payments	(X)	(X)	X
Total payments	(**X**)	**(X)**	**(X)**
NET RECEIPTS/(PAYMENTS)	**X**	**X**	**X**

(*Extract from notes to consolidated financial statements of Government X continued*)

Note D2: When the Entity Prepares a Biennial Budget

Biennial Budget On Cash Basis - For The Year Ended 31 December 200X *(paragraph 2.1.30)*

(in thousands of currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Available for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	**Difference: Budget and Actual for Budget Period*
CASH INFLOWS									
Taxation	X	X	X	X	X	X	X	X	X
Aid agreements	X	X	X	X	X	X	X	X	X
Proceeds: borrowing	X	X	X	X	X	X	X	X	X

Proceeds-Disposal of: Plant & equipment	X	X	X	X	X	X	X	X	X
Financial Instruments	X	X	X	X	X	X	X	X	X
Other receipts	X	X	X	X	X	X	X	X	X
Total inflows	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
CASH OUTFLOWS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order& safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Environment Protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
General Public Services	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total outflows	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOW	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(Extract from notes to consolidated financial statements of Government X continued)

Note E: Payments by Third Parties *(paragraph 2.1.77)*

Government X benefits from payments made by third parties to purchase goods and services on its behalf during the period. These payments do not constitute cash receipts or payments by the government. They include payments for goods and services made by multilateral and bilateral aid agencies and non-governmental organizations. They form part of the support for government programs provided by way of external and other assistance – additional information about external assistance and other assistance is provided in Note F below. The government has verified that the following payments have been made by third parties to purchase goods and services during 200X and 200X-1.

THIRD PARTY PAYMENTS

	200X	**200X-1**
(in thousands of currency units)		
Wages and Salaries	X	X

Supplies and consumables	X	X
Capital Payments	X	X
Loan and interest repayment	X	X
Total third party payments	**X**	**X**

Note F: External Assistance and Other Assistance ***(paragraphs 2.1.90 and 2.1.91)***

Assistance was received in the form of cash transfers and deposits to current and term deposit accounts and trusts fund accounts controlled by the government. It also encompasses amounts drawn by the government from accounts of donors consistent with external assistance and other assistance agreements and other authorizations. Assistance was also received in the form of third party payments.

External assistance comprises loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilized. Other assistance was provided for specified purposes by NGOs, private corporations and other donors.

The amounts, class of provider and purposes for which external assistance was provided during the period is outlined below.

(Extract from notes to consolidated financial statements of Government X continued)

External Assistance and Other Assistance received ***(paragraph 2.1.90(a), (b), (c) and (d) and paragraph 2.1.91)***

(in thousands of currency units)	**200X**		**200X-1**
External Assistance			
Total cash receipts	X		X
Total third party payments	X		X
Total External Assistance	X		X
Multilateral aid agencies			
Cash receipts	X		X
Third party payments	X		X
Total multilateral aid agencies	X		X
Bilateral aid agencies			
Cash receipts	X		X
Third party payments	X		X
Total bilateral aid agencies	X		X

Other Assistance			
Total cash receipts	X		X
Total third party payments	X		X
Total Other Assistance	X		X
Non-Governmental Organizations (NGOs)			
Cash receipts	X		X
Third party payments	X		X
Total NGOs	X		X
Private corporations and other donors			
Cash receipts	X		X
Total private corporations and other donors	X		X

(Extract from notes to consolidated financial statements of Government X continued)

(in thousands of currency units	**200X**		**200X+1**
Loan Funds	X		X
External assistance	X		X
Total Loan Funds	X		X
Grants and Donations			
External Assistance	X		X
Other assistance	X		X
Total Grants and Donations	X		X

Purposes for which External Assistance and Other Assistance was provided and used *(paragraph 2.1.90(e) and paragraph 2.1.91)*

External Assistance

During the reporting period external assistance was received from multilateral and bilateral external assistance agencies under agreements specifying that the assistance would be utilized for the following purposes:

	Development Assistance		**Emergency Assistance**		**Other**		**Total**	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Loan Funds	X	X	-	-	X	-	X	X

Grant Funds	X	-	X	X	-	-	X	X
Total	**X**	**X**	**X**	**X**	**X**	-	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	**-**	**X**	**X**

Other Assistance

During the reporting period other assistance was received as grants and donations from non-governmental organizations, private sector corporations and other donors for the following purposes:

	Development Assistance		**Emergency Assistance**		**Total**	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Grants & Donations	**X**	**X**	**X**	**X**	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	**X**

(Extract from notes to consolidated financial statements of Government X continued)

Undrawn External Assistance and Other Assistance *(paragraph 2.1.90(f) and paragraph 2.1.91)*

Undrawn external assistance loans and grants consist of amounts which have been specified in a binding agreement with external assistance agencies but have not been utilized at reporting date, and are subject to terms and conditions that have been satisfied in the past and it is anticipated will be satisfied in the future. There were no amounts of undrawn assistance from NGOs or other providers of other assistance in 200X or 200X-1.

	Development Assistance		**Emergency Assistance**		**Other**		**Total**	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Closing balance - Loans	X	X	-	-	X	X	X	X
Closing balance - Grants	X	X	-	-	X	X	X	X

Goods and Services Received *(paragraph 2.1.100)*

During 200X, a severe earthquake occurred in the ZZZ region inflicting serious damage to government property and private property, and significant loss of life. Multilateral agencies, bilateral agencies, NGO's, private corporations and associations of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialized medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter, food and clothing were also supplied. The value of goods and services received has been estimated at XX domestic currency units. The value of the emergency assistance provided has been estimated based on cost estimates provided by international aid agencies, NGO's and corporations that were major contributors because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX domestic currency units which represents the wholesale price of similar rice in domestic wholesale markets.

Goods and services received during the year have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

Appendix 3

Presentation of the Statement of Cash Receipts and Payments in the Format Required by IPSAS 2, *Cash Flow Statements*

Paragraph 2.2.1 of Part 2 of this Standard encourages an entity which is completing its transition to the accrual basis of financial reporting and adoption of accrual IPSAS to present a statement of cash receipts and payments in the same format as that required by IPSAS 2, Cash Flow Statements. IPSAS 2 is applied by an entity which reports on an accrual basis of financial reporting in accordance with International Public Sector Accounting Standards.

This appendix provides a summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under the cash basis of accounting as required by this Standard. Entities intending to present a statement of cash receipts and payments in accordance with the requirements of IPSAS 2 as far as is appropriate will need to refer to that IPSAS.

Presentation in the Format Required by IPSAS 2, *Cash Flow Statements*

1 IPSAS 2, *Cash Flow Statements* requires an entity which prepares and presents financial statements under the accrual basis of financial reporting ***and adoption of accrual IPSAS*** to prepare a cash flow statement which reports cash flows during the period classified by operating, investing and financing activities as defined below.

Definitions

2 *Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.*

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Operating activities are the activities of the entity that are not investing or financing activities.

Components of the Financial Statements

3 In presenting a statement of cash receipts and payments in this format it may be necessary to classify cash flows arising from a single transaction in different ways. (The term cash flow statement is used in the remainder of this appendix for a statement of cash receipts and payments presented in the same format as that required by IPSAS 2.) For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element may be classified as a financing activity. An entity presenting information by way of a cash flow statement presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities.

4 A cash flow statement will include line items which present the following amounts:

(a) Total receipts from operating activities;

(b) Total payments on operating activities;

(c) Net cash flows from operating activities;

(d) Net cash flows from investing activities;

(e) Net cash flows from financing activities;

(f) Beginning and closing balances of cash; and

(g) Net increase or decrease in cash.

Additional line items, headings and sub-totals will also be presented on the face of the statement when such presentation is necessary to present fairly the entity's cash flows.

5 An entity will also present on the face of the cash flow statement or in the notes:

(a) Major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities, except to the extent that paragraph 1.3.13 of Part 1 of this Standard allows reporting on a net basis;

(b) A sub-classification of total cash receipts from operations in a manner appropriate to an entity's operations; and

(c) An analysis of payments on operating activities using a classification based on either the nature of payments or their function within the entity, as appropriate.

Separate disclosure of payments made for capital acquisitions and for interest and dividends is also consistent with the requirements of IPSAS 2.

6 Disclosure of information about such matters as whether cash is generated from taxes, fines, fees (operating activities), the sale of capital assets (investing activities) and/or borrowings (financing activities) and whether it was expended to meet operating costs, for the acquisition of capital assets (investing activities) or for the retirement of debt (financing activities) will enhance transparency and accountability of financial reports. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows. Accordingly, this Standard encourages all entities to disclose this information in the financial statements and/or related notes.

Operating Activities

7 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

(a) By way of taxes (directly and indirectly); and

(b) From the recipients of goods and services provided by the entity.

The disclosure of the amount of net cash flows from operating activities also assists in identifying the extent to which operations of the entity generate cash that can be deployed to repay obligations, pay a dividend/distribution to its owner and make new investments without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

8 Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants, or transfers and other appropriations or budget authorizations made by central government or other public sector entities, including those made for the acquisition of capital assets;

(d) Cash receipts from royalties, fees and commissions;

(e) Cash payments to other public sector entities to finance their operations (not including loans or equity injections);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) Cash receipts and cash payments of a public sector insurance entity for premiums and claims, annuities and other policy benefits;

(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinuing operations; and

(l) Cash receipts or payments in relation to litigation settlements.

9 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

10 In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of the entity, and no clear distinction is made for the disposition of those funds between current activities, capital works and contributed capital. Where an entity is unable to separately identify appropriations or budget authorizations as current activities, capital works (operating activities) and contributed capital (investing activities), IPSAS 2 explains that the entity should classify the appropriation or budget authorization as cash flows from operations, and disclose this in the notes to the statement of cash flows.

Investing Activities

11 The separate disclosure of cash flows arising from investing activities identifies the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:

(a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;

(b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is designated as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities

12 The separate disclosure of cash flows arising from financing activities is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed;

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease; and

(d) Cash receipts and payments relating to the issue of and redemption of currency.

Interest and Dividends

13 IPSAS 2 requires the separate disclosure of cash flows from interest and dividends received and paid. IPSAS 2 also requires that where such disclosures are made they should be classified in a consistent manner from period to period as either operating, investing or financing activities.

14 The total amounts of interest and dividends paid and received during a period are disclosed in the cash flow statement. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of the cash flows associated with interest and dividends received and paid for other entities. Interest and dividends paid and interest and dividends received may be classified as operating cash flows. Alternatively, interest and dividends paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Reporting Major Classes of Receipts and Payments

15 The sub-classification of receipts depends upon the size, nature and function of the amounts involved. Depending upon the nature of the entity, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) Receipts from grants, transfers, or budget appropriations (possibly classified by source); and

(e) Receipts from interest and dividends.

16 Payment items are sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. Examples of classification of payments by nature and function are included in Parts 1 and 2 of this Standard.

Appendix 4

Qualitative Characteristics of Information Included in General Purpose Financial Reports

Paragraph 1.3.27 of Part 1 of this Standard requires that the financial statements provide information that meets the qualitative characteristics of information included in general purpose financial statements and satisfies the constraints on such information. This appendix summarizes the qualitative characteristics and constraints of general purpose financial reports as identified in paragraph 1.3.27. For a full explanation of the qualitative characteristics and constraints, readers should refer to "The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities".

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The qualitative characteristics are understandability, relevance, faithful representation, timeliness, comparability and verifiability. Pervasive constraints on information included in financial statements are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

Understandability

Understandability is the quality of information that enables users to comprehend its meaning. General Purpose Financial Statements (financial statements) of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. Users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand without assistance.

Relevance

Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

Faithful Representation

To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transactions and other events, activity or circumstance—which is not necessarily always the same as its legal form.

Comparability

Information in financial statements is comparable when users are able to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that the financial statements show corresponding information for preceding periods.

Timeliness

Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

Verifiability

Verifiability is the quality of information that helps assure users that information in financial statements faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in financial statements. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

Constraints on Information Included in General Purpose Financial Statements

Materiality

Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's financial statements prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should justify the cost of providing it. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in financial statements.

The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation.

Preparers expend the majority of the effort to provide information in financial statements. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in financial statements. Users reap the majority of benefits from the information provided by financial statements. However, information prepared for financial statements may also be used internally by management and result in better decision-making by management.

In developing IPSAS, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of financial statements for accountability and decision-

making purposes and satisfy the qualitative characteristics are prescribed by IPSAS when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs.

Balance between Qualitative Characteristics

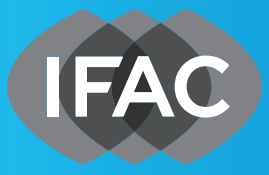
The qualitative characteristics work together to contribute to the usefulness of information. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

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